POLYMETAL

78,000,000 Ordinary Shares in the form of Ordinary Shares and Global Depositary Receipts
Offer Price U.S.$7.75 per Ordinary Share and Global Depositary Receipt

This prospectus (the "Prospectus") relates to an offering (the "Offering") by JSC Polymetal ("Polymetal" or the "Company") of global depositary receipts ("GDRs") representing interests in ordinary shares of Polymetal each with a nominal value of RUB 0.2 per share (the "Ordinary Shares" and, together with the GDRs, the "Securities"), with each GDR representing an interest in one (1) Ordinary Share, and by Nafta Moskva (Cyprus) Limited (the "Selling Shareholder") of GDRs and Ordinary Shares, of Polymetal, in a simultaneous offering of Ordinary Shares and GDRs. See "Use of Proceeds".

The Selling Shareholder has granted the Joint Global Coordinators (as defined herein) an option (the "Over-Allotment Option"), exercisable for 30 days following the announcement of the definitive Offer Price for the GDRs, to purchase additional Ordinary Shares amounting to up to 15% of the total number of Ordinary Shares sold in the Offering in the form of GDRs solely to cover over-allotments, if any, in the Offering. See "Subscription and Sale".

This document constitutes a prospectus relating to the Company prepared in accordance with the prospectus rules (the "Prospectus Rules") of the U.K. Financial Services Authority (the "Financial Services Authority") made under Section 73A of the Financial Services and Markets Act 2000 (the "FSMA"). This Prospectus will be made available to the public in accordance with the Prospectus Rules.

The Offering does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The offering consists of (a) an offering in the United States to certain qualified institutional buyers (each a "QIB") as defined in Rule 144A ("Rule 144A") under the United States Securities Act of 1933, as amended (the "Securities Act"), of GDRs (the "Rule 144A GDRs") in reliance on Rule 144A, (b) an offering outside the United States and the Russian Federation of GDRs (the "Regulation S GDRs") in reliance on Regulation S under the Securities Act ("Regulation S"), (c) an offering in the United States to QIBs of Ordinary Shares in reliance on Rule 144A and (d) an offering outside the United States of Ordinary Shares in reliance on Regulation S. The Ordinary Shares and the GDRs have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered or sold in the United States of America (the "United States") absent registration or an exemption from registration under the Securities Act. The Ordinary Shares and the GDRs are subject to selling and transfer restrictions in certain jurisdictions. Prospective subscribers of the GDRs should read the restrictions described under "Subscription and Sale" and "Selling and Transfer Restrictions".

AN INVESTMENT IN THE ORDINARY SHARES OR GDRs INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS". The Ordinary Shares and GDRs are of a specialist nature and should normally only be purchased, subscribed and traded by investors who are particularly knowledgeable in investment matters.

The Company has applied (i) to the U.K. Financial Services Authority, in its capacity as competent authority under the FSMA (hereinafter, the U.K. Listing Authority) for a block listing of up to 315,000,000 GDRs, consisting of up to 66,973,000 GDRs to be issued on or about 12 February 2007 (the "GDR Closing Date"), up to 10,000,000 additional GDRs to be issued pursuant to the Over-Allotment Option, if exercised, and additional GDRs to be issued from time to time against the deposit of Ordinary Shares with Deutsche Bank Trust Company Americas, as depositary (the "Depositary") to be admitted to the official list of the U.K. Listing Authority (the "Official List") and (ii) to the London Stock Exchange plc (the "London Stock Exchange") to admit such GDRs for trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the International Order Book (the "IOB"). The IOB is a regulated market for purposes of the Markets in Financial Instruments Directive (2004/39/EC). Admission to the Official List, together with admission to trading on the regulated market of the London Stock Exchange constitutes admission to official listing on a stock exchange ("Admission"). Application has also been made for the Rule 144A GDRs to be designated as eligible for trading in The PORTAL Market of The Nasdaq Stock Market, Inc. ("PORTAL"). The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a "when and if issued" basis on or about 12 February 2007 and that unconditional trading through the IOB will commence on or about the GDR Closing Date. **All dealings in the GDRs prior to the commencement of the unconditional dealings will be of no effect if the Admission does not take place and will be at the sole risk of the parties concerned.**

The Ordinary Shares were listed on the "I" list on the Russian Trading System ("RTS") on 15 January 2007 and the Company has applied for admission of the Ordinary Shares to trading on the Moscow Interbank Currency Exchange ("MICEX"). Prices for Ordinary Shares traded on the RTS and MICEX may not reflect the Offer Price. Prior to the GDR Closing Date, there has not been any public market for the Ordinary Shares or the GDRs.

The Ordinary Shares and GDRs offered hereby are being offered by the managers (the "Managers") as named in "Subscription and Sale" or through their selling agents, when, as and if delivered to and accepted by them and subject to their right to reject any order in whole or in part. The Regulation S GDRs will be evidenced by a Master Regulation S Global Depositary Receipt (the "Master Regulation S GDR"), which will be issued by the Depositary, registered in the name of BT Globenet Nominees Limited and deposited with Deutsche Bank AG, London Branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"). Euroclear and Clearstream are expected to accept the GDRs for settlement in their respective book-entry settlement systems. The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the "Master Rule 144A GDR" and, together with the Master Regulation S GDR, the "Master GDRs") registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC") in New York. Except as set forth herein, investors may hold beneficial interests in and transfer the GDRs only through DTC, Euroclear or Clearstream and their direct and indirect participants, as applicable. Transfers within Euroclear and Clearstream, or within DTC, will be in accordance with the usual rules and operating procedures of the relevant system. The Company expects that delivery of the GDRs will be made through DTC, with respect to the Rule 144A GDRs, and through Euroclear and Clearstream, with respect to the Regulation S GDRs, in each case on or about the GDR Closing Date and that delivery of the Ordinary Shares will be made on or about 27 February 2007 (the "Ordinary Share Closing Date").

Trading in the GDRs representing Ordinary Shares being offered by the Company on the London Stock Exchange will be subject to cancellation until the Placement Report (the "Placement Report") for the newly issued Ordinary Shares being offered by the Company is registered by the Russian Federal Service for the Financial Markets (the "FSFM"). The Company has undertaken that if the Placement Report is not registered within 60 days after the Closing Date (or such later date as the Company and the Managers agree), the Company will deliver to the Depositary the net proceeds it receives from the sale of GDRs (in roubles, if required by Russian law) and the Managers have agreed to deliver their fees and commissions related to the sale of such GDRs to the Depositary. The Depositary will cancel such number of GDRs as corresponds to the number of newly issued Ordinary Shares being cancelled, on a pro rata basis or on such other basis as it deems practicable at its sole discretion, and will distribute the funds it had received to the then holders of the GDRs, subject to the terms of the Deposit Agreements relating to the GDRs. The amount per GDR ultimately returned to the then holders of GDRs may be less than the initial public offering price per GDR, and may be subject to withholding taxes and delays. If the Placement Report is not registered and trading in respect of these GDRs on the London Stock Exchange is cancelled, and the Depositary cancels the GDRs as described herein, the liquidity of the remaining GDRs will be significantly impaired.

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank **Merrill Lynch International** **UBS Investment Bank**

Co-Lead Manager

RBC Capital Markets

The date of this Prospectus is 7 February 2007


Head office
Dukat
Lunnoye
Saint-Petersburg
Arylakh
Dukat ore field
Dukat prospective area
Magadan
Khakari
Yurievskoye
Arka
Galka
Katasma
Rudnichniy
Yekaterinburg
Fevralskoye
Albazino
Khabarovsk
Krasnoyarsk
Anenskoye
APU
Chita
Voro
Khakanja
Production
Exploration
Development

POLYMETAL

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus (the "Prospectus") is issued in compliance with the Prospectus Directive (as defined below) compliant listing rules of the FSMA for the purpose of giving information with respect to the Company and the GDRs and which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company. The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

SRK Consulting (UK) Ltd. ("SRK") of Windsor Court, 1-3 Windsor Place, Cardiff CF10 3BX, Wales, United Kingdom accepts responsibility for its report contained in "Appendix 1: Mineral Expert's Report". To the best of the knowledge of SRK (who has taken all reasonable care to ensure that such is the case) the information contained in this report is in accordance with the facts and does not omit anything likely to affect the import of such information. SRK has authorised the contents of "Appendix 1: Mineral Expert's Report" and the references herein to its report and its name in the form and context in which they appear. Such report is included, in the form and context in which it is included, with the consent of SRK.

No person is authorised to give any information or to make any representation in connection with the Offering or sale of the Ordinary Shares or GDRs other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Depositary or any of the Joint Global Coordinators (as defined under "Subscription and Sale"). This Prospectus is being furnished by the Company and the Selling Shareholder solely for the purpose of enabling a prospective investor to consider the purchase or subscription of the Ordinary Shares or GDRs. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Ordinary Shares or GDRs is prohibited, except to the extent that such information is otherwise publicly available. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

Apart from the responsibilities and liabilities, if any, which may be imposed on each of Deutsche Bank AG, Merrill Lynch International and UBS Limited and the Managers by FSMA or the regulatory regime established thereunder or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of Deutsche Bank AG, Merrill Lynch International or UBS Limited, the Managers or any of their respective affiliates accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by it, or on its behalf, in connection with the Company, the Securities or the Offering. Deutsche Bank AG, Merrill Lynch International and UBS Limited, the Managers and each of their respective affiliates, each accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which each might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of Deutsche Bank AG, Merrill Lynch International or UBS Limited, any of the Managers or any of their respective affiliates as to the accuracy, completeness or sufficiency of the information set out in this document. Nothing contained in this document is, or shall be relied upon as, a promise or representation by any of Deutsche Bank AG, Merrill Lynch International or UBS Limited, any of the Managers or any of their respective affiliates as to the past or the future. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

Where information has been sourced from a third party, this information has been accurately reproduced and so far as the Company is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information sourced from third parties contained in this Prospectus relates to the gold and silver market and information on the Group's competitors (which may include estimates and approximations) as well as information contained in this Prospectus from official data published by certain Russian government agencies. See "Market Overview".

This Prospectus does not constitute an offer to sell, or a solicitation by or on behalf of the Company, the Selling Shareholder, the Depositary or any Manager to any person to subscribe for or purchase any of the

Ordinary Shares or GDRs in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Prospectus and the Offering or sale of the Ordinary Shares or GDRs in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Company, the Selling Shareholder and the Managers to inform themselves about and to observe any such restrictions. No action has been taken by the Company or the Managers that would permit, otherwise than under the Offering, an offer of the Ordinary Shares or GDRs, or possession or distribution of this Prospectus or any other Offering material or application form relating to the Ordinary Shares or GDRs in any jurisdiction where action for that purpose is required. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Ordinary Shares and GDRs and distribution of this Prospectus is set forth under "Subscription and Sale".

No person is authorised to provide any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Company or the Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The Company's websites do not form any part of the contents of this Prospectus.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Ordinary Share or GDR shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Company since the date of this Prospectus.

In connection with the Offering, each of the Managers and any affiliate acting as an investor for its own account may take up the Ordinary Shares or GDRs and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references in this document to the Ordinary Shares or GDRs being offered or placed should be read as including any offering or placement of securities to the Managers and any affiliate acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, UBS Limited (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may (but will be under no obligation to), to the extent permitted by applicable law, over-allot the GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action and such transactions may be effected on any stock market, over-the-counter market or otherwise. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final price of the Securities is made and, if begun, may end at any time but must end no later than 30 calendar days thereafter (the "Stabilisation Period"). Save as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering.

In connection with the Offering, the Stabilising Manager or any persons acting for it, may, for stabilisation purposes, over-allot GDRs up to a maximum of 15% of the total number of GDRs comprised in the Offering of the GDRs. For the purposes of allowing it to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by it during the stabilising period, the Stabilising Manager has entered into over-allotment arrangements (the "Over-Allotment Arrangements") with the Selling Shareholder pursuant to which the Stabilising Manager may, acting as principal, purchase or procure purchasers for additional Ordinary Shares in the form of GDRs up to a maximum of 15% of the total number of GDRs comprised in the Offering (the "Over-Allotment GDRs") at the Offer Price. The Over-Allotment Arrangements are exercisable in whole or in part, upon notice by the Stabilising Manager, at any time during the Stabilisation Period. Any Over-Allotment GDRs made available pursuant to the Over-Allotment Arrangements will on the same terms and conditions as the GDRs being sold in the Offering and will form a single class for all purposes with the other GDRs.

In making an investment decision regarding the Ordinary Shares and GDRs offered hereby, prospective investors must rely on their own examination of the Company and the terms of the Offering, including the merits and risks involved, and should rely only on the information contained in this Prospectus. The Company has not, and the Selling Shareholder and the Managers have not, authorised any other person to provide different information. If anyone provides different or inconsistent information, prospective investors should not rely on it. The information appearing in this Prospectus is accurate as of the date on the front cover of this Prospectus only, and the Company's business, prospects, results of operations, financial condition and the information set forth in this Prospectus may have changed since that date.

Information in this Prospectus is not investment, legal or tax advice. Prospective investors should consult their own counsel, financial, accounting and other advisors for legal, tax, business, financial and related advice regarding purchasing the Ordinary Shares and GDRs. Neither the Company, the Selling Shareholder nor the Managers or any of the Company, its or their respective representatives or affiliates are making any representation to any offeree, purchaser or subscriber of the Ordinary Shares and GDRs regarding the legality of an investment in the Ordinary Shares and GDRs by such offeree, purchaser or subscriber under appropriate investment or similar laws.

Deutsche Bank AG, Merrill Lynch International and UBS Limited are acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

The Company may withdraw the Offering at any time, and the Company and the Managers reserve the right to reject any offer to purchase or subscribe the Ordinary Shares and GDRs in whole or in part and to sell to any prospective investor less than the full amount of the Ordinary Shares and GDRs sought by such investor.

NOTICE TO UNITED KINGDOM INVESTORS

This Prospectus is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); and (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as "relevant persons". The Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

In any European Economic Area ("EEA") Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive"), this communication is only addressed to, and is only directed at, qualified investors in that Member State within the meaning of the Prospectus Directive.

This Prospectus has been prepared on the basis that all offers of Securities other than the offer of Securities contemplated in the Prospectus in the United Kingdom, once the Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive (2003/71/EC) as implemented in the United Kingdom will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of Securities. Accordingly any person making or intending to make any offer within the EEA of Securities which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholder or any of the Managers to produce a prospectus for such offer. None of the Company, the Selling Shareholder or any of the Managers has authorised, nor do they authorise, the making of any offer of Securities through any financial intermediary, other than offers made by the Managers which constitute the final placement of Securities contemplated in this Prospectus.

NOTICE TO UNITED STATES INVESTORS

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO CANADIAN INVESTORS

The Ordinary Shares and GDRs have not been nor will be qualified for prospectus sale to the public in Canada under applicable Canadian securities laws and accordingly, any offer or sale of the Ordinary Shares and GDRs in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements and otherwise in compliance with applicable Canadian laws. Investors in Canada should refer to "Selling and Transfer Restrictions—Selling Restrictions—Canada".

NOTICE TO RUSSIAN FEDERATION RESIDENTS

Under Russian law, the GDRs are securities of a foreign issuer. The GDRs are not eligible for initial offering and circulation in the Russian Federation. Neither the issue of the GDRs nor a securities prospectus in respect of the GDRs has been, or is intended to be, registered with the FSFM. The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in the Russian Federation or to any Russian residents except as may be permitted by Russian law.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes "forward-looking statements", which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "plans", "will", "may", "anticipates", "would", "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the Company's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Among the important factors that could cause the Company's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those under the headings "Summary", "Operating and Financial Review", "Risk Factors", "Business" and elsewhere in this Prospectus, including, without limitation, global prices of gold and silver, the Company's ability to develop its existing or planned resources, the success of the Company's joint ventures and the implementation of the Company's capital expenditure programmes. These forward-looking statements speak only as at the date of this Prospectus. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based unless required to do so by the Listing Rules of the FSMA and other applicable laws.

AVAILABLE INFORMATION

For so long as any Ordinary Shares or GDRs representing such Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser or subscriber of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser or subscriber, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

LIMITATION ON SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Substantially all of the Company's directors and executive officers named in this Preliminary Prospectus reside outside the United Kingdom and the United States. All or a substantial portion of their and the Company's assets and the assets of the Selling Shareholder are located outside the United Kingdom and the United States, principally in the Russian Federation. As a result, it may not be possible for you to:

(i) effect service of process within the United Kingdom or the United States upon any of the Company's directors and executive officers named in this Preliminary Prospectus; or

(ii) enforce, in the United Kingdom or the United States, court judgements obtained in courts of the United Kingdom or the United States, as the case may be, against the Company or any of the Company's directors and executive officers named in this Preliminary Prospectus in any action.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon U.K. or U.S. securities laws, as the case may be.

Judgements rendered by a court in any jurisdiction outside the Russian Federation generally will be recognised by courts in Russia only if an international treaty providing for recognition and enforcement of judgements in civil cases exists between the Russian Federation and the country where the judgement is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgements. No such treaty exists between the United Kingdom and the Russian Federation, or between the United States and the Russian Federation, for the reciprocal enforcement of foreign court judgements, and no relevant federal law on enforcement of foreign court judgements has been adopted in the Russian Federation.

Under the terms of the Deposit Agreements (as defined in "Terms and Conditions of the Global Depositary Receipts"), owners of GDRs agree that any dispute, controversy or cause of action against the Company and/or the Depositary arising out of the GDRs, the Ordinary Shares or other deposited securities, the Deposit Agreements or any transaction contemplated therein, will be referred to and resolved by arbitration in accordance with the rules of the LCIA in proceedings in London, England, as more fully described in the Deposit Agreements. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

(i) the inexperience of Russian courts in international commercial transactions;

(ii) official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors; and

(iii) corruption and/or Russian courts' inability to enforce such orders.

For a further description of the legal risks relating to an investment in the Ordinary Shares and the GDRs, see "Risk Factors—Risks relating to the Russian Federation—Risks relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and could subject the Company to material liabilities" and "Risk Factors—Risks relating to the Offering, Ordinary Shares and GDRs—Holders of the Ordinary Shares or the GDRs may have limited recourse against the Selling Shareholder, the Company and the Company's directors and executive officers because the Company generally conducts its operations outside the United States and the United Kingdom and the majority of the Company's directors and executive officers reside outside the United States and the United Kingdom".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Company's audited consolidated financial statements as of and for the years ended 31 December 2005, 2004 and 2003 (the "audited consolidated financial statements") included in this Prospectus have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Company's unaudited interim consolidated financial statements as of 30 September 2006 and for the nine months ended 30 September 2006 and 2005 (the "unaudited interim financial statements") included in this Prospectus have been prepared on the basis substantially consistent with the annual financial statements. In the opinion of the Company's management, this interim financial data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim period. The financial results for the nine months ended 30 September 2006 are not necessarily indicative of the results for the full year ending 31 December 2006 or for any other interim period or financial year.

The Company's consolidated financial statements as of 31 December 2004 and for the year then ended have been restated to adjust for the following items: (i) the Company recorded additional income tax expense of $3.3 million related to the sale of silver and gold between its subsidiaries that was also sold to third parties in 2004. Previously, the Company had recorded income tax expense on the sale from the subsidiary to the third parties, but did not record the income tax expense for the sale between the subsidiaries; and (ii) the Company corrected its purchase price allocation for the acquisition of a 20% interest in Serebro Magadana (see Note 27 to the audited consolidated financial statements included elsewhere in this Prospectus) to reflect the portion of contingent consideration which may become due subsequent to acquisition. At the date of acquisition of the 20% interest in Serebro Magadana, the fair value of the assets acquired exceeded the purchase price paid resulting in the Company having to recognise as a liability an amount equal to the lesser of the maximum amount of contingent consideration or the excess of the fair value acquired over the cost of the acquired assets. The company recognised an additional liability of $12.3 million, equal to the excess of the fair value of 20% interest in the entity over the price of $21.2 million paid at the acquisition date. For a detailed presentation of the effects of the restatement on the Company's financial statements, see Note 3 to the audited consolidated financial statements included elsewhere in this Prospectus.

Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA

The Company presents EBITDA and Adjusted EBITDA because its management considers them to be important supplemental measures of the Company's operating performance. EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Company's industry. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under US GAAP. Some of these limitations are as follows:

- EBITDA and Adjusted EBITDA do not reflect the impact of income taxes on the Company's operating performance;
- EBITDA and Adjusted EBITDA do not reflect the impact of finance expenses, which can be significant and could further increase if the Company incurs more debt, on the Company's operating performance;
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation, depletion and amortisation on the Company's operating performance. The assets of the Company's businesses which are being depreciated will have to be replaced in the future, and such depreciation expense may approximate the cost to replace these assets in the future. By excluding this expense, EBITDA and Adjusted EBITDA do not reflect the Company's future cash requirements for these replacements; and
- Other companies in the Company's industry may calculate EBITDA and Adjusted EBITDA differently or may use them for different purposes than the Company does, limiting their usefulness as comparative measures.

The Company compensates for the above-mentioned limitations by relying primarily on its US GAAP operating results and using EBITDA and Adjusted EBITDA only supplementally. See the Company's consolidated statements of income and consolidated statements of cash flows included elsewhere in this Prospectus. EBITDA and Adjusted EBITDA are measures of the Company's operating performance that are not required by, or presented in accordance with, US GAAP. EBITDA and Adjusted EBITDA are not measurements of the Company's operating performance under US GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. In particular, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to the Company to invest in the growth of its business.

Cash costs

The Company presents the financial items "total cash costs" and "total cash costs per ounce" which have been determined using industry guidelines promulgated by the Gold Institute and are not US GAAP measures. An investor should not consider these items in isolation or as alternatives to cost of sales, operating income, income from continuing operations, net cash provided by operating activities or any other measure of financial performance presented in accordance with US GAAP. While the Gold Institute has provided definitions for the calculation of total cash costs, total cash costs per ounce may vary significantly among gold mining companies, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

Presentation of Certain Terminology

In this Prospectus, all references to:

- "**CIS**" are to the Commonwealth of Independent States and its member states as of the date of this Prospectus: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. In this Prospectus, references to "sales to the CIS" (and derivations thereof) mean sales to customers in CIS member states other than Russia;
- "**Gold of Northern Urals**", "**Northern Urals Gold**" and "**Zoloto Severnogo Urala**" refer to CJSC Northern Urals Gold;
- "**EUR**", "**euro**" and "**€**" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community;
- "**Magadan Silver**" and "**Serebro Magadana**" are to CJSC Magadan Silver;
- "**Okhotsk Mining and Geological Company**" and "**Okhotskaya GGC**" are to OJSC Okhotsk Mining and Geological Company;
- "**Polymetal**", the "**Company**" and the "**Group**" are to Polymetal and its consolidated subsidiaries, unless the context otherwise requires;
- "**RUB**", "**Russian rouble**" and "**rouble**" are to the currency of the Russian Federation;
- "**Russia**" are to the Russian Federation;
- "**Selling Shareholder**" are to Nafta Moskva (Cyprus) Limited;
- "**Silver Territory**" and "**Serebro Territorii**" are to CJSC Silver Territory;
- "**U.K.**" and "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland;
- "**U.S. dollar**", "**U.S.$**" and "**$**" are to the currency of the United States of America; and
- "**U.S.**" and "**United States**" are to the United States of America.

Definitions of certain terminology associated with the Company's business and industry are set forth under "Glossary of Selected Terms".

Market and Other Statistical Data

Market data used in this Prospectus, including without limitation under the captions "Summary", "Market Overview", "Business" and "Certain Regulatory Matters", have been extracted from official and industry sources and other sources the Company believes to be reliable but have not been independently verified.

Such sources include the Association of Russian Gold Producers, an industry organisation of which the Company is a member. Such information, data and statistics have been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Ore Reserves and Mineral Resources

The ore reserves and mineral resources reported in this Prospectus are presented in accordance with the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"). The JORC Code differs in several significant respects from SEC Industry Guide 7, which governs disclosures of mineral reserves in registration statements and reports filed with the SEC. In particular, Industry Guide 7 does not recognise classifications other than proven and probable reserves, and the SEC does not permit mining companies to disclose mineral resources in SEC filings. Information contained in this Prospectus relating to estimates of ore reserves and mineral resources at the Dukat, Lunnoye, Vorontsovskoye, Khakanjinskoye, Arylakh and Yurievskoye deposits was audited by SRK as of 1 October 2006. Information contained in this Prospectus relating to estimates of ore reserves and mineral resources at the Albazino deposit was audited by Snowden Mining Industry Consultants Pty Ltd ("Snowden") as of 7 November 2006. Information sourced from Snowden has been accurately reproduced and, as far as the Company is aware and able to ascertain, no facts have been omitted which would render such information inaccurate or misleading. See "Business—Reporting of Ore Reserves and Mineral Resources" and "Appendix 1: Mineral Expert's Report".

Mineral resource figures are estimates of the quantity and quality of material in the ground that has the potential to be exploited and ore reserve figures are estimates of that material which has been planned to be exploited as of the date of the estimate. The ore reserve and mineral resource estimates contained herein inherently include a degree of uncertainty and depend to some extent on geological assumptions and statistical inferences which may ultimately prove to have been unreliable. Consequently, ore reserve and mineral resource estimates should be regularly revised based on actual production experience or new information and should therefore be expected to change. Notably, should the Company encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, ore reserve and mineral resource estimates may have to be adjusted and mining plans may have to be altered in a way that might adversely affect the Company's operations. Moreover, if the price of silver or gold declines, or stabilises at a price lower than recent levels, or if production costs increase or recovery rates decrease, it may become uneconomical to recover ore reserves containing relatively lower grades of mineralisation and consequently both the ore reserves and mineral resources may decrease. Similarly, should the price of silver or gold stabilise at a materially higher price than currently assumed, or if production costs decrease or recovery rates increase, it may become economical to recover material at lower grades than that assumed here and consequently both the ore reserves and mineral resources may increase.

Cost Curves

This Prospectus contains references to "cost curves". A cost curve is a graphic representation in which the production volume of a given commodity across the relevant industry is arranged on the basis of average unit costs of production from lowest to highest to permit comparisons of the relative cost positions of particular production sites, individual producers or groups of producers within a given country or region. Generally, a producer's position on a cost curve is described in terms of the particular quartile or tercile, the first quartile or tercile being the lowest cost and the fourth quartile or the third tercile being the highest, in which the production of a given plant or producer or group of producers appears.

The cost curves referred to in this Prospectus have been obtained by the Company from CRU International ("CRU"), with respect to silver, and GFMS Ltd ("GFMS"), with respect to gold, independent industry analysts with recognised experience in constructing cost curves for the relevant commodities. Information sourced from CRU and GFMS has been accurately reproduced and, as far as the Company is aware and able to ascertain, no facts have been omitted which would render such information inaccurate or misleading. Cost curves sourced from CRU have been prepared on a co-product basis and cost curves sourced from GFMS have been prepared on a by-product basis. Cost curves on a co-product basis are based on costs pro rata across products whilst cost curves on a by-product basis are based on costs for the principal product net of by-product revenues. Cost curve information may differ materially when presented on a co-product versus by-product basis. To construct cost curves, the analyst compiles information from a variety of sources, including reports made available by producers, site visits, personal contacts, trade publications and other analysts' reports. Although producers may thus participate to some extent in the process through which cost curves are constructed, they are typically unwilling to validate cost analyses directly because of commercial sensitivities. Inevitably, assumptions must be made by the analyst with respect to data that such analyst is unable to obtain and judgement must be brought to bear in the case of virtually all data, however obtained. In addition, the time required to produce cost curves means that even the most recent available examples will be unable to take account of recent developments; in some cases, the most recent available cost curve may be based on data that is several years old. Moreover, all cost curves embody a number of significant assumptions with respect to exchange rates and other variables. In summary, the manner in which cost curves are constructed means that they have a number of significant inherent limitations.

EXCHANGE RATE INFORMATION

The Company's functional currency is the Russian rouble, as most of the Company's sales revenues and purchases and certain financing agreements are settled in Russian roubles. The U.S. dollar is the reporting currency selected by the Company for purposes of financial reporting in accordance with US GAAP. The transactions and balances in the accompanying financial statements have been translated into U.S. dollars in accordance with the relevant provisions of SFAS No. 52, Foreign Currency Translation. Consequently, assets and liabilities are translated at period closing exchange rates. Revenues, expenses, gains and losses have been translated using period average exchange rates. Translation differences resulting from the use of these exchange rates have been included as a separate component of shareholders' equity. The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Russian rouble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the "CBR" or the "Central Bank"). Fluctuations in the exchange rate between the Russian rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Company's financial statements and other information presented in this Prospectus.

	RUB per U.S.$1.00			
	High	**Low**	**Period average(1)**	**Period end**
Year ended 31 December				
2002	31.86	30.14	31.34	31.78
2003	31.88	29.25	30.69	29.45
2004	29.45	27.75	28.81	27.75
2005	29.00	27.46	28.32	28.78
2006	28.78	26.18	27.19	26.33
Month ended				
31 July 2006	26.98	26.83	26.91	26.87
31 August 2006	26.84	26.67	26.77	26.74
30 September 2006	26.80	26.64	26.74	26.78
31 October 2006	26.97	26.73	26.86	26.75
30 November 2006	26.78	26.31	26.62	26.31
31 December 2006	26.39	26.18	26.29	26.33
through 19 January 2007	26.57	26.44	26.52	26.53

(1) The average of the exchange rates on the last business day of each month for the relevant annual periods and on each business day for which the CBR quotes the Russian rouble to U.S. dollar exchange rate for the relevant monthly period.

This Prospectus contains translations of certain amounts into U.S. dollars or roubles at specified rates solely for the purpose of presentation. These translations should not be construed as representations that the amounts actually represent such equivalent U.S. dollar or rouble amounts or could be, or could have been, converted into U.S. dollars or roubles at the rate indicated as of the dates mentioned herein or at all.

Until recently, the Russian rouble was generally not convertible outside Russia. A market existed within Russia for the conversion of Russian roubles into other currencies, but the limited availability of other currencies in Russia may have inflated their value relative to the Russian rouble. From 1 July 2006, the CBR abolished existing restrictions on currency operations creating the conditions for the Russian rouble to become a freely convertible currency. At this point, however, it is not yet possible to determine whether, or when, an active international market in the Russian rouble will develop. No representation is made that the Russian rouble or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Russian roubles, as the case may be, at these rates, at any particular rate or at all. See "Description of Share Capital and Applicable Russian Legislation—Currency Control" for a description of Russian currency exchange controls.

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the GDRs or Ordinary Shares should be based on consideration of this Prospectus as a whole including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive 2003/71/EC in each member state of the EEA, no civil liability will attach to the Company in any such member state solely on the basis of this summary, including any translations thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Definitions of certain terms related to the Company's business and industry are set forth under "Glossary of Selected Terms". Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Cautionary Note Regarding Forward-Looking Statements".

Overview

Polymetal is a market leader in the precious metals mining industry. In 2005, the Company was the world's fifth largest producer of silver, according to GFMS, and the largest primary silver producer globally, according to CRU. During the same year, the Company was also Russia's third largest producer of gold, according to the Association of Russian Gold Producers.

The Company was incorporated as Polymetal (Joint Stock Company Polymetal) in Saint Petersburg, Russia in 1998 by ICT Group. Today Polymetal operates through a vertically integrated organisational structure comprising production units, in-house engineering, stand-alone exploration and development projects and regional exploration subsidiaries.

At present, Polymetal actively mines at four sites: Dukat, Lunnoye, Khakanjinskoye ("Khakanja") and Vorontsovskoye ("Voro"), and the operating lives of its mines range from ten to twenty years based on current ore reserves. Dukat and Lunnoye, mines situated in the vicinity of Magadan in the Northeast of Russia, are primary silver mines with significant by-product gold production. Dukat is currently the world's second largest primary silver deposit by ore reserves and the third largest silver mine by production according to data published by the Silver Institute. Khakanja, located in the Khabarovsk Territory, and Voro, situated in the Sverdlovsk region, are both gold mines, with the former also producing significant quantities of silver.

The table below sets out the ore reserves and mineral resources at each of the Company's operating mines as at 30 September 2006. The table also includes information on ore reserves and mineral resources at Lunnoye's satellite deposit (Arylakh) and the satellite deposit of Khakanja (Yurievskoye), as well as the Company's most advanced development project (Albazino). This information has been extracted without material adjustment from "Appendix 1: Mineral Expert's Report".

	Reserves			Resources					
	Proved and Probable	Silver grade	Gold grade	Measured and Indicated	Silver grade	Gold grade	Inferred	Silver grade	Gold grade
	(in tonnes)(1)(2)	(g/t)	(g/t)	(in tonnes)(3)	(g/t)	(g/t)	(in tonnes)(4)	(g/t)	(g/t)
Operating Mines									
Dukat	18,606	542.6	1.1	19,634	632.2	1.3	16	437.5	1.0
Lunnoye & Arylakh	4,562	392.6	1.4	4,367	507.0	1.8	824	557.1	1.1
Khakanja & Yurievskoye	5,412	219.3	5.6	5,193	243.1	6.6	103	197.6	7.2
Voro	21,956	3.8	2.8	23,996	4.1	2.9	64	3.4	2.5
Advanced Development Project									
Albazino	—	—	—	4,300	—	5.6	2,305	—	4.4
Total	**50,537**	**260.3**	**2.3**	**57,490**	**278.1**	**2.8**	**3,312**	146.9	3.6

Notes:

(1) The estimates for ore reserves (Proved and Probable) presented above are based on the following economic cut-off grades (in situ): Dukat: 205-235 g/t Ag equivalent for open-pit and 290 g/t Ag equivalent for underground operations; Lunnoye: 270 g/t Ag equivalent for open-pit and 370-665 g/t Ag equivalent for underground operations; Khakanja: 3.0-3.3 g/t Au equivalent for open-pit and 4.6-4.7 g/t Au equivalent for underground operations; Voro: 0.9 g/t Au equivalent for oxidised ore, 1.2 g/t Au equivalent for primary ore; Arylakh: 330 g/t Ag equivalent for open-pit; Yurievskoye: 4.0 g/t Au equivalent.

(2) The Company's ore reserves are based on a gold price of U.S.$450/oz and a silver price of U.S.$7.00/oz; mineral resources are based on a gold price of U.S.$550/oz and a silver price of U.S.$8.00/oz. At 30 September 2006, the silver price was $11.55/oz and the gold price was $599.25/oz.

(3) Measured and indicated mineral resources are stated inclusive of ore reserves but with no allowance for ore loss or dilution. The estimates for Mineral Resources (Indicated and Inferred) presented above for Albazino are based on the economic cut-off grades (in situ) 2.0 g/t Au.

(4) Inferred mineral resources are stated exclusive of ore reserves and measured and indicated mineral resources.

In addition to its four operating mines, Polymetal has a significant pipeline of exploration and development projects that is expected to continue to fuel the Company's growth. In particular, the Company recently acquired the Albazino deposit in the Khabarovsk Territory to add to its current portfolio of twelve development and exploration projects. According to an audit of mineral resources conducted by Snowden, Albazino contained 769 thousand ounces of indicated gold mineral resources at November 7, 2006. Of its stand-alone exploration projects, the Company currently expects to bring two projects (Fevralskoye and Khakari) to feasibility study or pre-feasibility study by the end of 2008, and to upgrade mineralisation at two sites (Aprelkovskoye-Peshkovskiy Unit ("APU") and Galkinsky) to mineral resource status by the end of 2007. The Company also has three grass-roots regional exploration programmes around the Dukat, Khakanja and Voro mines aimed at extending the economic life and increasing the production capacity of the existing mines and finding deposits with stand-alone economic significance. The Company's exploration portfolio includes sixteen licences covering an area of approximately 3,100 sq. km.

Since its inception, the Company has designed, built and managed seven mines in Russia, three of which have since been divested. The Company has built up its mine portfolio by developing greenfield mines or by entirely rebuilding mines from inactive operations. Polymetal has achieved strong growth in recent years in its production levels for both silver and gold. Silver production has grown at a compound annual growth rate of 26.6% during the period from 2003 to 2005, and gold production has grown at a compound annual growth rate of 33.2% over the same period. The Company has achieved much of this growth by managing the transition of many of its operating mines from development projects into full scale, producing operations, leveraging the considerable in-house expertise of its employees.

The table below sets out Polymetal's production output, revenues, EBITDA and Adjusted EBITDA for the years ended 31 December 2005, 2004 and 2003 and for the nine months ended 30 September 2006 and 30 September 2005. See "Presentation of Financial and Other Information" and "Summary Consolidated Financial and Other Information".

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004 (Restated)**	**2003**
Silver production (Moz)	13.0	13.9	18.9	17.3	11.8
Gold production (koz)	186	182	243	212	137
Total silver equivalent (Moz)	24.1	24.8	33.5	30.0	20.0
Revenues (U.S.$m)	223.5	172.5	239.0	204.5	92.4
EBITDA (U.S.$m)	108.9	56.7	78.3	93.5	50.6
Adjusted EBITDA (U.S.$m)	97.2	67.2	93.0	102.1	43.6

A cost curve produced by CRU ranked the Company's silver mines, Dukat and Lunnoye, on a co-product basis in the first half of world production of silver in 2005, with cash costs in the lowest half of silver producers worldwide in 2005. A cost curve produced by GFMS ranked the Company's gold mines on a by-product basis, with Khakanja in the first quartile, with cash costs lower than at least 75% of the world's gold producers, and Voro in the first half of world production of gold in 2005. See "Presentation of Financial and Other Information".

In September 2006, Polymetal entered into a preliminary agreement to establish a joint-venture with AngloGold Ashanti, an international gold producer with operations on four continents, in order to identify, explore and develop gold mining opportunities in Russia. Initially, the proposed strategic alliance will involve four sites located in the Krasnoyarsk and Chita regions: the Anenskiy and APU sites (contributed by Polymetal) and the Bogunay and Veduga sites (contributed by AngloGold Ashanti). Polymetal believes that this proposed alliance will benefit the Company both in terms of opportunities generated and access to best-in-class geological expertise and processing technology. In December 2006, the Company also formed a limited liability company with Mongolrostsvetmet to pursue a joint venture opportunity in Mongolia.

Key Strengths

The Company believes that its key strengths include:

- its proven track record in successfully developing and operating mines;
- its position as a leading precious metals producer;
- an exceptional mine portfolio with low cash costs;
- dedicated in-house geological and engineering expertise;
- attractive growth opportunities from a significant pipeline of exploration and development projects; and
- its experienced management team and highly skilled employees.

Strategy

The Company's strategy is to create shareholder value by continuing to consolidate its position as one of the leading producers of precious metals while maintaining an attractive profitability profile. The key elements of this strategy are to:

- maintain profitability while increasing production at existing operations;
- acquire new exploration licences and development projects;
- continue to commission new mines and develop exploration projects;
- maximise the benefits from the proposed strategic alliance with AngloGold Ashanti; and
- focus on development of the Company's human capital.

Summary Risk Factors

An investment in the Securities involves substantial risks and uncertainties. These risks and uncertainties include, among others, those listed below.

- The profitability and viability of the Company's operations and the cash flows generated by its operations are affected by changes in the market price for silver and gold, which have fluctuated widely in the past.
- If the Company fails to find or acquire and develop additional ore reserves, its long-term growth prospects may suffer.
- Inflation may materially adversely affect the Company's results of operations.
- Some of the Company's processing operations utilise pre-owned equipment which may be subject to an increased risk of breakdown, premature obsolescence and general non-performance.
- The Company is dependent on key personnel and on maintaining a highly qualified and skilled workforce.
- The Company's operating costs could increase significantly.
- The Company's mining operations may yield less gold and/or silver under actual production conditions than indicated by its gold and silver reserve estimates.
- The Company agreed to sell significant portions of its future production as a requirement of certain syndicated loan financing. The Company may fail to produce enough silver to satisfy its delivery obligations or may incur significant losses or lose opportunities for gains. In addition, if the Company is unable to adequately control its production costs, the Company may have to sell silver at/or below cost.
- The Company will incur significant capital expenditures in order to increase its production levels and improve overall efficiency which it may not be able to finance.
- The Company is dependent on obtaining and maintaining licences necessary for the operation of its business.

- The Company's accounting system and internal controls may not be as sophisticated as those of companies organised in western jurisdictions with a longer history of compliance with generally accepted accounting principles.
- The Company's proposed strategic alliance with AngloGold Ashanti, joint venture with Mongolrostsvetmet and any future partnerships or joint ventures may limit its future opportunities, require significant resources and/or result in significant unanticipated losses, costs or liabilities.
- The Company may experience problems in integrating and managing new acquisitions.
- The Company must observe certain financial covenants and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put the Company into default.
- The Company's competitive position and future prospects depend on the experience and expertise of certain key individuals. A change of control from the Company's controlling shareholder could lead to an event of default and acceleration under the Company's financings.
- The locations of the Company's silver and gold operations are subject to severe climatic conditions which could disrupt the delivery of equipment and supplies and the supply of power and fuel, as well as affect the Company's silver and gold production and operations.
- The Company faces foreign exchange risks.
- The Company is increasingly required to consider and ensure the sustainable development of, and provide benefits to, the communities in which it operates.
- The Company is dependent upon its relationships with a limited number of independent third party contractors for the transportation of ore, concentrates and consumables.
- The Company's insurance coverage may prove inadequate to satisfy future claims against it or to protect the Company against natural disasters or operational catastrophes.
- If past or future interested party transactions or major transactions in which the Company or its subsidiaries are involved are successfully challenged, they could be invalidated.
- The Group may be subject to liability for back taxes and related interest and penalties as a result of certain past transactions.
- After 31 December 2008, the Company may be subject to the requirement to present its financial statements under International Financial Reporting Standards as adopted by the EU or may be subject to additional reporting requirements, which may cause delays in the preparation of its financial information.
- If one of the Company's subsidiaries is forced into liquidation because net assets are either negative or below the minimum amount of charter capital required under Russian law, the Company's results of operations could suffer.
- The ability of owners of GDRs to exercise rights attached to the underlying Shares is limited by Russian law and the terms of the Deposit Agreements.

The foregoing is not a comprehensive list of the risks and uncertainties to which the Company is subject. Investors should carefully consider all of the information in this Prospectus, including the information included under "Risk Factors" prior to making an investment in the Securities.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

This summary consolidated financial and other information sets forth the Company's historical consolidated financial information and other operating information as of and for the years ended 31 December 2005, 2004 and 2003 and as of 30 September 2006 and for the nine months ended 30 September 2006 and 2005. The financial information as of and for the years ended 31 December 2005, 2004 and 2003 was derived from, and should be read in conjunction with, the Company's audited consolidated financial statements included elsewhere in this Prospectus. The financial information as of 30 September 2006 and for the nine months ended 30 September 2006 and 2005 was derived from, and should be read in conjunction with, the unaudited interim financial statements included elsewhere in this Prospectus. Results of operations for the nine month period ended 30 September 2006 are not necessarily indicative of results for the full year ending 31 December 2006 or for any other interim period or for any future financial year. In the opinion of the Company's management, the interim financial data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim period.

As described in Note 3 to the audited consolidated financial statements, the consolidated balance sheets as of 31 December 2004 and the consolidated statements of income, cash flows and changes in shareholders' equity for the year ended 31 December 2004 have been restated to give effect to certain items that were incorrectly accounted for in the consolidated financial statements as previously issued.

This summary consolidated financial and other information should be read in conjunction with "Operating and Financial Review" and "Presentation of Financial and other Information".

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004 (Restated)**	**2003**
	($ in thousands, except as indicated)				
Consolidated income statement data					
Revenues	223,476	172,480	238,973	204,487	92,357
of which from					
sales of silver	112,790	98,240	136,520	117,695	45,609
sales of gold	110,369	72,970	100,472	85,959	45,921
Cost of sales	(117,989)	(94,321)	(137,924)	(92,850)	(55,494)
Income from mining operations	**105,487**	**78,159**	**101,049**	**111,637**	**36,863**
Exploration expenses	—	—	—	(46)	(256)
General, administrative and selling expenses	(20,977)	(15,862)	(22,397)	(15,523)	(9,516)
Other expenses, net	(7,009)	(8,998)	(11,387)	(7,099)	(4,275)
Operating income	**77,501**	**53,299**	**67,265**	**88,969**	**22,816**
Interest expense	(17,808)	(18,485)	(24,869)	(29,223)	(20,993)
Capital lease finance costs	(1,645)	(4,314)	(3,963)	(5,541)	(5,441)
Gain on partial disposal of interest in a consolidated subsidiary	—	—	—	—	13,850
Exchange gains/(losses), net	17,932	(4,629)	(6,826)	8,725	7,587
Income from continuing operations before income tax and minority interest	**75,980**	**25,871**	**31,607**	**62,930**	**17,819**
Income tax (expense)/benefit	(20,175)	(7,331)	(9,019)	(17,832)	3,163
Income from continuing operations before minority interest	**55,805**	**18,540**	**22,588**	**45,098**	**20,982**
Minority interest	(6,260)	(5,856)	(7,883)	(17,366)	(642)
Income from continuing operations	**49,545**	**12,684**	**14,705**	**27,732**	**20,340**
Discontinued operations, net of income tax					
Losses from operations of disposed subsidiaries	—	(691)	(691)	(2,839)	(6,872)
Gain on disposal of subsidiaries	—	3,585	3,585	47,551	—
Income (loss) on discontinued operations	—	**2,894**	**2,894**	**44,712**	**(6,872)**
Net income	**49,545**	**15,578**	**17,599**	**72,444**	**13,468**

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004 (Restated)	2003
	($ in thousands, except as indicated)				
Consolidated cash flow data highlights (for the period)					
Net cash provided by (used in) operating activities	8,653	26,353	82,743	37,507	(34,977)
Net cash provided by (used in) investing activities	(109,737)	43,255	(12,943)	(63,395)	(42,039)
Net cash provided by (used in) financing activities	84,072	(65,309)	(52,179)	25,168	78,314
Consolidated balance sheet data highlights (as at the period end)					
Cash and cash equivalent	3,328		18,925	1,353	1,925
Total assets	671,628		511,150	555,459	364,460
Total debt (long-term and short-term borrowings and obligations under capital lease)	396,129		304,738	353,621	304,878
Total liabilities	492,995		378,412	426,737	335,773
Total shareholders' equity	178,616		115,801	99,707	21,630
Minority interest	17		16,937	29,015	7,057

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2006	2005	2005	2004 (Restated)	2003
Non-GAAP measures, operational and other data					
Silver production *(in millions of ounces)*	13.0	13.9	18.9	17.3	9.8
Gold production *(in thousands of ounces)*	186	182	243	212	137
Average silver sales price *($ per ounce)*	8.81	7.06	7.22	6.80	4.64
Average gold sales price *($ per ounce)*	599.8	424.2	429.4	403.6	356.0
Operating income margin(1) *(percentages)*	34.7%	30.9%	28.1%	43.5%	24.7%
EBITDA(2) *($ in thousands)*	108,884	56,723	78,334	93,502	50,564
EBITDA margin(3) *(percentages)*	48.7%	32.9%	32.8%	45.7%	54.7%
Adjusted EBITDA(4) *($ in thousands)*	97,212	67,208	93,043	102,143	43,619
Adjusted EBITDA margin(5) *(percentages)*	43.5%	39.0%	38.9%	50.0%	47.2%
Total cash costs per ounce(6) *($ per ounce of silver) (co-product basis)*	4.7	3.9	3.8	3.1	2.9
Total cash costs per ounce(6) *($ per ounce of gold) (co-product basis)*	298.7	239.7	237.4	185.4	229.5
Capital expenditure *($ in thousands)*	31,734	13,403	25,124	29,595	46,660
Number of employees at the end of period	4,809	4,309	4,284	4,352	4,560

(1) Operating income margin is calculated as operating income divided by revenues.

(2) EBITDA, for any relevant period, represents income from continuing operations before income tax expense, interest expense, capital lease finance costs, depreciation, depletion, amortisation and accretion of reclamation and mine closure obligation.

The Company presents EBITDA and Adjusted EBITDA because its management considers them to be important supplemental measures of the Company's operating performance. EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Company's industry. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under US GAAP. Some of these limitations are as follows:

- EBITDA and Adjusted EBITDA do not reflect the impact of income taxes on the Company's operating performance;
- EBITDA and Adjusted EBITDA do not reflect the impact of finance expenses, which can be significant and could further increase if the Company incurs more debt, on the Company's operating performance;
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on the Company's operating performance. The assets of the Company's businesses which are being depreciated will have to be replaced in the future, and such depreciation expense may approximate the cost to replace these assets in the future. By excluding this expense, EBITDA and Adjusted EBITDA do not reflect the Company's future cash requirements for these replacements; and
- Other companies in the Company's industry may calculate EBITDA and Adjusted EBITDA differently or may use them for different purposes than the Company does, limiting their usefulness as comparative measures.

The Company compensates for the above-mentioned limitations by relying primarily on its US GAAP operating results and using EBITDA and Adjusted EBITDA only supplementally. See the Company's consolidated statements of income and consolidated statements of cash flows included elsewhere in this Prospectus. EBITDA and Adjusted EBITDA are measures of the Company's operating performance that are not required by, or presented in accordance with, US GAAP. EBITDA and Adjusted EBITDA are not measurements of the Company's operating performance under US GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. In particular, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to the Company to invest in the growth of its business.

Reconciliation of EBITDA to income from continuing operations is as follows for the periods indicated:

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004 (Restated)	2003
	($ in thousands)				
Income from continuing operations	49,545	12,684	14,705	27,732	20,340
Income tax expense/(benefit)	20,175	7,331	9,019	17,832	(3,163)
Interest expense	17,808	18,485	24,869	29,223	20,993
Capital lease finance costs	1,645	4,314	3,963	5,541	5,441
Amortisation, depreciation and depletion(7)	19,585	13,496	25,134	12,509	6,530
Accretion of reclamation and mine closure obligation	126	413	644	665	423
EBITDA	**108,884**	**56,723**	**78,334**	**93,502**	**50,564**

(3) EBITDA margin is calculated as EBITDA divided by revenues.

(4) Adjusted EBITDA, for any relevant period, represents income from continuing operations adjusted for income tax expense, interest expense, capital lease finance costs, depreciation and depletion, amortisation, accretion of reclamation and mine closure obligation, minority interest and foreign exchange gain or loss.

Reconciliation of Adjusted EBITDA to income from continuing operations is as follows for the periods indicated:

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004 (Restated)	2003
	($ in thousands)				
Income from continuing operations	49,545	12,684	14,705	27,732	20,340
Income tax expense/(benefit)	20,175	7,331	9,019	17,832	(3,163)
Interest expense	17,808	18,485	24,869	29,223	20,993
Capital lease finance costs	1,645	4,314	3,963	5,541	5,441
Amortisation, depreciation and depletion(7)	19,585	13,496	25,134	12,509	6,530
Accretion of reclamation and mine closure obligation	126	413	644	665	423
Minority interest	6,260	5,856	7,883	17,366	642
Exchange (gains)/losses, net	(17,932)	4,629	6,826	(8,725)	(7,587)
Adjusted EBITDA	**97,212**	**67,208**	**93,043**	**102,143**	**43,619**

(5) Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenues.

(6) The Company presents the financial items "total cash costs" and "total cash costs per ounce" which have been determined using industry guidelines promulgated by the Gold Institute and are not US GAAP measures. An investor should not consider these items in isolation or as alternatives to cost of sales, operating income, income from continuing operations, net cash provided by operating activities or any other measure of financial performance presented in accordance with US GAAP. While the Gold Institute has provided definitions for the calculation of total cash costs and total production costs, the calculation of total cash costs and total cash costs per ounce may vary significantly among gold mining companies, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

(7) Includes depreciation and depletion, amortisation of intangible assets and depletion of mineral rights.

	Nine months ended 30 September		Year ended 31 December		
Reconciliation of cash costs	2006	2005	2005	2004	2003
	($ in thousands)				
Cost of sales	117,989	94,321	137,924	92,850	55,494
General, administrative and selling expenses	20,977	15,862	22,397	15,523	9,516
Amortisation, depreciation, depletion and accretion of reclamation and mine closure obligation(8)	(19,711)	(13,909)	(25,778)	(13,174)	(6,953)
Total cash costs	**119,255**	**96,274**	**134,543**	**95,199**	**58,057**

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004	2003
Amount sold					
Gold (th.oz.)	184	172	234	213	129
Silver (th.oz.)	12,798	13,915	18,918	17,301	9,839
Total cash cost per ounce on a co-product basis					
Gold ($/oz.)	298.7	239.7	237.4	185.4	229.5
Silver ($/oz.)	4.7	3.9	3.8	3.1	2.9

(8) Includes amortisation of intangible assets, depreciation and depletion, depletion of mineral rights and accretion of reclamation and mine closure obligation.

THE OFFERING

The Company	JSC Polymetal, an open joint stock company organised under the laws of Russia.
Selling Shareholder	Nafta Moskva (Cyprus) Limited, a company organised under the laws of Cyprus. The Selling Shareholder currently owns 100% of the Company's issued share capital. Following the Offering, the Selling Shareholder will own approximately 75.2% of the Company's issued share capital (or approximately 72.1% assuming exercise in full of the Over-allotment Option). See "Principal and Selling Shareholder".
Joint Global Coordinators and Joint Bookrunners	Deutsche Bank AG, London Branch, Merrill Lynch International and UBS Limited.
The Offering	The Offering consists of an offering of 78,000,000 ordinary shares in the form of Ordinary Shares and GDRs. The GDRs are being offered to QIBs in the United States under Rule 144A and to institutional investors outside the United States and Russia under Regulation S, and Ordinary Shares will be offered to QIBs in the United States under Rule 144A and to institutional investors outside the United States and Russia and to investors in Russia under Regulation S. The GDRs will be issued by Deutsche Bank Trust Company Americas, as Depositary. On 23 January 2007, the Company and the Selling Shareholder entered into an Agreement with BlackRock Investment Management (UK) Limited pursuant to which BlackRock Investment Management (UK) Limited has agreed to purchase Ordinary Shares (including Ordinary Shares in the form of GDRs in the ratio of 60:40 (Ordinary Shares : GDRs)) in the Offering at the Offer Price for aggregate consideration of $100 million. The Ordinary Shares (including Ordinary Shares in the form of GDRs) will be allocated on the same terms and conditions as the Ordinary Shares and GDRs being sold in the Offering and will form a single class for all purposes with the other Ordinary Shares and GDRs, respectively.
Over-allotment Option	The Selling Shareholder has granted to the Joint Global Coordinators an Over-allotment Option to acquire up to 10,000,000 additional Ordinary Shares in the form of GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable upon written notice to the Selling Shareholder from the Joint Global Coordinators at any time during the Stabilisation Period. If the Joint Global Coordinators exercise this option, the Selling Shareholder will be obligated to sell, and each Joint Global Coordinator will be severally obligated, subject to the conditions contained in the underwriting agreement among the Company, the Selling Shareholder and the Managers of the Offering (the "Underwriting Agreement"), to purchase or procure purchasers for, a number of additional shares in the form of GDRs proportionate to that Joint Global Coordinator's initial underwriting commitment.
Stabilisation Period	The period commencing on the date of adequate public disclosure of the Offer Price of the GDRs and ending no later than 30 calendar days thereafter.
Offer Price	The Offer Price is U.S.$7.75 per GDR and Ordinary Share (the "Offer Price").
GDR Closing Date	On or about 12 February 2007

Ordinary Share Closing Date	On or about 27 February 2007
GDRs	Each GDR will represent one (1) Ordinary Share. The GDRs will be issued and delivered by the Depositary pursuant to the Deposit Agreements. The Rule 144A GDRs will be evidenced by the Master Rule 144A GDR, and the Regulation S GDRs will be evidenced by the Master Regulation S GDR. See "Terms and Conditions of the Global Depositary Receipts". GDRs representing up to 66,973,000 Ordinary Shares will initially be created for the purpose of the Offering. Pursuant to the Deposit Agreements, the Ordinary Shares represented by the GDRs will be held by Deutsche Bank Ltd., as Custodian, for the account of the Depositary and for the benefit of holders and beneficial owners of GDRs. Except in limited circumstances, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreements, interests in GDRs represented by the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR and vice versa. See "Terms and Conditions of the Global Depositary Receipts".
Depositary	Deutsche Bank Trust Company Americas
Lock-up	The Company and the Selling Shareholder have agreed, as part of the Underwriting Agreement and subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in the Company or securities convertible or exchangeable into or exercisable for any shares in the Company or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, for a period of 180 days from the later of the Ordinary Share Closing Date or the last exercise of the Over-Allotment Option, without the prior written consent of the Joint Global Coordinators.
Use of proceeds	The gross proceeds to the Company from the Offering will be U.S.$310,000,000. The net proceeds to the Company from the Offering are estimated to be approximately U.S.$298,400,000 after deduction of underwriting commissions and other fees and expenses payable by the Company. The Company intends to use the net proceeds of the Offering primarily in the following ways: • up to approximately $300 million to repay existing indebtedness; • approximately $12 million to make payments to AngloGold Ashanti in order to raise the value of the Company's contribution to the proposed strategic alliance to match the value of assets contributed by AngloGold Ashanti; • approximately $20 million to repay a portion of the debt owed by the Company to PanAmerican Silver in connection with the Company's acquisition of the minority interest in Dukat. In addition, the Company intends to use the remainder of the net proceeds it receives from the Offering to invest in the development of its business and for general corporate purposes.

	The Company will not receive any of the proceeds from the sale of Securities by the Selling Shareholder in the Offering, or any proceeds from the sale of additional Securities by the Selling Shareholder pursuant to the exercise of the Over-Allotment Option.
Voting rights	The Ordinary Shares are subject to applicable provisions of Russian corporate law and the charter of the Company (the "Charter"). The exercise of votes by the holders of GDRs will be effected through the Depositary pursuant to the terms of the Deposit Agreements. The Deposit Agreements do not allow for the voting of fractional entitlements. See "Risk Factors—Risks Relating to the Offering, Ordinary Shares and GDRs—The Deposit Agreements for the GDRs and relevant requirements of Russian law limit the voting rights of holders of GDRs with respect to the Ordinary Shares represented by GDRs".
Dividend policy	The Company anticipates that cash resources will be retained for the development of the Company's business and does not expect to make any dividend payments in the foreseeable future. However, the declaration and payment by the Company of any dividends and the amount thereof will depend on the results of the Company's operations, its financial position, cash requirements, acquisition or investment opportunities, prospects, profits available for distribution and other factors deemed to be relevant at the time. As a Russian holding company, the Company's ability to pay dividends depends upon receipt of dividends and distributions from its subsidiaries and its ability to make dividend payments under Russian law. See "Dividend Policy".
Share capital	At the date of this Prospectus, the Company's authorised and issued share capital is RUB 55,000,000, which is equivalent to approximately U.S.$2,073.8 thousand, and consists of Ordinary Shares with a nominal value of RUB 0.2 per share.
Taxation	For a discussion of certain U.S. federal income tax, U.K. tax and Russian tax consequences of purchasing and holding the Ordinary Shares or GDRs, see "Taxation".
Listing and trading	Application has been made (i) to the FSA for a block listing of up to 315,000,000 GDRs, consisting of up to 66,973,000 GDRs to be issued on or about the GDR Closing Date, up to 10,000,000 additional GDRs to be issued pursuant to the Over-allotment Option, if exercised, and up to 238,027,000 additional GDRs which may be issued from time to time against the deposit of Ordinary Shares with the Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange plc for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the IOB. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. The Company expects that conditional trading through the IOB will commence on a "when and if issued" basis on or about 7 February 2007, and unconditional trading through the IOB will commence on or about 12 February 2007. All dealings in the GDRs prior to the commencement of unconditional trading will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The Ordinary Shares were listed on the "I" list on the RTS on 15 January 2007 and the Company has applied for admission to trading of the Ordinary Shares on MICEX. Prices for Ordinary Shares traded on the RTS and MICEX may not reflect the Offer Price. Prior to the GDR Closing Date, there has not been any public market for the Ordinary Shares or the GDRs.

Registration of Placement Report

Trading in the GDRs representing Ordinary Shares being offered by the Company on the London Stock Exchange will be subject to cancellation until the Placement Report for the newly issued Ordinary Shares being offered by the Company is registered by the FSFM. Also, following the GDR Closing Date, no additional Ordinary Shares or GDRs will be accepted for deposit and no additional GDRs will be issued until the Depositary has been notified of the registration of the Placement Report. The Company has undertaken that if the Placement Report is not registered within 60 days after the GDR Closing Date (or such later date as the Company and the Managers agree), the Company will deliver to the Depositary the net proceeds to the Company from the sale of GDRs (in Russian roubles, if required so by Russian law) and the Managers have agreed to deliver their fees and commissions related to the sale of GDRs representing the Ordinary Shares being offered by the Company to the Depositary. In such event, the Depositary will cancel such number of GDRs as corresponds to the number of newly issued Ordinary Shares being cancelled, on a pro rata basis or on such other basis as it deems practicable at its sole discretion, and will distribute the funds it had received, pro rata or on such other basis as it deems practicable in its sole discretion to the then holders of the GDRs, subject to the terms of the Deposit Agreements relating to the GDRs. The amount per GDR ultimately returned to the then holders of GDRs may be less than the initial public offering per GDR, and may be subject to withholding taxes, and may be delayed or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring conversion of funds from or into roubles) and may be prevented if there is a change in such regulations or practices. If the Placement Report is not registered and trading in respect of these GDRs on the London Stock Exchange is cancelled and the Depositary cancels such GDRs as described herein, the liquidity of the remaining GDRs will be significantly impaired. GDR holders will be taking the credit risk on the Company and the Managers for the delivery of funds in the event that the Placement Report is not registered.

Payment and settlement

Application will be made to have the Rule 144A GDRs, evidenced by the Master Rule 144A GDR, accepted for clearance through DTC and the Regulation S GDRs, evidenced by a Master Regulation S GDR, accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg. The Company expects that payment and delivery of the GDRs will be made through the facilities of DTC, with respect to the Rule 144A GDRs, and Euroclear and Clearstream, Luxembourg, with respect to the Regulation S GDRs, on or about 12 February 2007. Upon acceptance by DTC, a single Master Rule 144A GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, Luxembourg, as applicable.

Each purchaser of Ordinary Shares in the Offering is required to pay for any Ordinary Shares in same-day funds, and the Ordinary Shares will be delivered to such purchasers on or about 27 February 2007. In order to take delivery of the Ordinary Shares, potential purchasers may

	be required to have a depo account at one or more depositories designated by the Company. Upon taking delivery of the Ordinary Shares, purchasers may choose to hold the Ordinary Shares through a direct account with the Company's share registrar; however, directly held Ordinary Shares are ineligible for trading on the RTS or MICEX. In addition, in order to trade your Ordinary Shares on the RTS or MICEX, you may have to further transfer your Ordinary Shares to an account at a different depository.
Clearance and security numbers	The security identification numbers for the GDRs are as follows: Rule 144A GDRs ISIN: US7317891031 CUSIP: 731789103 Common Code: 028167695 Regulation S GDRs: ISIN: US7317892021 CUSIP: 731789202 Common Code: 028168098 London Stock Exchange trading symbol: "PMTL" The security identification numbers for the Ordinary Shares are as follows: ISIN for Ordinary Shares: RU000A0JP195 RTS trading symbol: PMTL PORTAL identification number: PT31789103
Transfer restrictions	See "Selling and Transfer Restrictions" for a detailed description of the restrictions on transfers of the GDRs.
Risk factors	Prospective investors should consider carefully certain risks discussed under "Risk Factors".

RISK FACTORS

An investment in the Ordinary Shares or GDRs involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained elsewhere in this Prospectus, before they decide to buy any Ordinary Share or GDR. Each of these risks could have a material adverse effect on the Company's business, financial condition, results of operations or the trading price of the Ordinary Shares and GDRs, and investors could lose all or part of their investment.

The Company has described the risks and uncertainties that the Company believes are material, but these risks and uncertainties may not be the only ones the Company faces. Additional risks and uncertainties relating to the Company that are not currently known to the Company, or that it currently deems immaterial, may also have an adverse effect on the Company's business, financial condition and operating results. If this occurs, the price of the Ordinary Shares or GDRs may decline, and investors could lose all or part of their investment.

The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Company's business, financial condition, results of operations or trading price of the Ordinary Shares and GDRs.

Investors should consider carefully whether an investment in the Company's Ordinary Shares or GDRs is suitable for them in light of the information in this document and their personal circumstances.

Risks Relating to the Company's Operations

The profitability and viability of the Company's operations and the cash flows generated by its operations are affected by changes in the market price for silver and gold, which have fluctuated widely in the past.

During the nine months ended 30 September 2006 and the year ended 31 December 2005, the Company derived 50.5% and 57.1%, respectively, of its total revenues from sales of silver and 49.4% and 42.1%, respectively, from sales of gold. A sustained downward movement in the market price for silver and gold may negatively affect the Company's profitability and cash flows.

The market price for silver and gold can fluctuate widely. These fluctuations are caused by numerous factors which are beyond the Company's control, including:

- speculative positions taken by investors or traders in gold and silver;
- changes in the demand for gold and silver use in jewellery, for industrial uses and for investment;
- changes in the supply of gold and silver from production, disinvestment, scrap and hedging;
- financial market expectations regarding the rate of inflation;
- the strength of the U.S. dollar (the currency in which gold and silver trade internationally) relative to other currencies;
- changes in interest rates;
- actual or expected gold or silver sales from central banks;
- gold and silver sales by gold and silver producers in forward transactions;
- global or regional political or economic events;
- the cost of silver production in major silver-producing nations such as Peru, Mexico, Australia and China; and
- the cost of gold production in major gold-producing nations, such as South Africa, the United States, Australia and the Russian Federation.

In addition, sustained downward movements in market prices for silver or gold could render less economic, or uneconomic, any of the Company's extraction and/or exploration activities. In particular, if silver or gold prices fall below and remain below the Company's cost of production for any sustained period, the Company may experience losses and may be forced to curtail or suspend some or all of the Company's mining operations. In addition, the Company would also have to assess the economic impact of low silver or gold prices on its ability to recover any losses which may be incurred during that period, as well as its ability to maintain adequate reserves. Any of these factors may materially adversely affect the Company's business, prospects, results of operations or financial condition.

If the Company fails to find or acquire and develop additional ore reserves, its long-term growth prospects may suffer.

The Company's ore reserves will decline as gold and silver are produced and reserves are depleted. In addition, the volume of production from gold and silver deposits may decline as more productive reserves are depleted. The Company's future production growth is dependent upon its success in finding, acquiring and developing additional ore reserves. If the Company is not successful, its total reserves and production will decline, and the Company may fail to meet its operational goals, which, in turn, may materially adversely affect the Company's business, prospects, results of operations or financial condition.

Inflation may materially adversely affect the Company's results of operations.

The Company's production activities are located in Russia, and the majority of its costs are incurred in roubles. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% that year, according to the Russian Federal State Statistics Service (or Rosstat). Notwithstanding recent reductions in the inflation rate, which, according to Rosstat, was 11.7%, 10.9% and 7.2% in 2004, 2005 and for the first nine months of 2006, respectively, the Company experiences inflation-driven increases in certain of its costs that are linked to the general price level in Russia, such as supplies and materials, as well as salaries. If these trends continue, the Company may not be able to preserve operating margins. In particular, because the Company is unable to control the market price at which it sells the silver and gold that it produces, it is possible that significantly higher future inflation in Russia may result in an increase in future operational costs in local currency, without a concurrent devaluation of the rouble against the dollar or an increase in the dollar price of silver and/or gold. This could have a material adverse effect upon the Company's business, prospects, results of operations or financial condition. While none of the Company's specific operations is currently materially adversely affected by inflation, significantly higher and sustained inflation in the future, with a consequent increase in operational costs, could result in operations being discontinued or reduced or rationalised at higher cost mines.

Some of the Company's processing operations utilise pre-owned equipment which may be subject to an increased risk of breakdown, premature obsolescence and general non-performance.

The Company utilises pre-owned equipment at some of its mining facilities, which is essential for meeting its production goals. As the Company has no means of ascertaining whether, prior to its coming into ownership of this equipment, it was properly and regularly maintained, such equipment is subject to an increased risk of breakdown, premature obsolescence and general non-performance, in comparison to new equipment. If the Company's equipment breaks down and needs to be repaired or replaced, the Company will incur additional costs and its operations may be delayed resulting in the recovery of lower amounts of gold or silver. In such an event, the Company's capital and operating cost assumptions may be inaccurate and its ability to economically and successfully mine may be hampered, which could adversely affect the Company's business, prospects, results of operations or financial condition.

The Company is dependent on key personnel and on maintaining a highly qualified and skilled workforce.

The Company's growth and future success depends significantly upon its continued ability to attract, retain and motivate a number of key senior management and highly qualified and suitably skilled personnel at the Company's headquarters and at each mining facility. The remote locations and severe climatic conditions associated with the Company's mining facilities make it difficult to attract suitably qualified workers. In addition, the competition in Russia for personnel with relevant expertise is intense, due to the current high demand for qualified individuals, and any of the Company's employees can terminate his or her employment on two weeks notice in accordance with Russian law. The Company also has certain obligations under the conditions of its licences to hire employees from the regions in which it operates, which may restrict its ability to recruit and employ the necessary personnel. The Company is not insured against damage that may be incurred in case of loss or dismissal of key specialists or managers. Additionally, there can be no assurance that the Company will be able to retain personnel without affecting profitability. In particular, the Company may be unable to retain qualified personnel consistent with its internal compensation policy or may be unable to control the costs associated with retaining and motivating highly qualified employees. Failure to successfully manage personnel needs could materially adversely affect the Company's continued operation and growth strategy. The loss of the services of one or more of the Company's key personnel could have a material adverse effect on its business, prospects, results of operations or financial condition.

The Company's operating costs could increase significantly.

The majority of the Company's operating costs consist of wages, power supply (diesel fuel, gasoline and electricity), materials and spare parts, contractor services, including transport and refining, and other consumables. The cost of labour comprises a significant component of the Company's costs of sales (18.3% for the nine months ended 30 September 2006 and 20.3% for the year ended 31 December 2005). Miners' wages in Russia have been steadily increasing over the last several years due to the growth of the mining industry, inflation and overall improvement of the Russian economy. According to the Ministry of Economic Development and Trade of the Russian Federation, the average wage in the Russian Federation has been rising at a rate of 11% to 13% per year in recent years. For the nine months ended 30 September 2006 and the year ended 31 December 2005, the Company's staff costs, amounted to $21.6 million and $28.0 million, respectively, or 18.3% and 20.3% of its total cost of sales, respectively. The rise in the Company's staff costs was attributable to increased headcount, as well as the result of increased competition amongst mining companies, so that it has been necessary to increase employee salaries in order to maintain the requisite number of skilled personnel needed to operate its business. If costs of labour continue to rise significantly, the Company's business, prospects, results of operations or financial condition could be materially and adversely affected.

In addition, operating costs at the Company's mining locations are sensitive to changes in the price of energy sources, including diesel fuel, used to operate equipment and generate electricity. Prices for fuel can fluctuate widely due to availability and demand of other consumers. Furthermore, there is no guarantee that power shortages or outages to the Company's mines will not occur. During periods of peak usage, supplies of energy may be curtailed. The occurrence of any of these factors may have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

The Company's mining operations may yield less gold and/or silver under actual production conditions than indicated by its gold and silver resource and reserve estimates.

The mineral resource estimates contained in this Prospectus are estimates of the contained quantity and grade of silver and gold in the Company's deposits. The estimates are based on several assumptions as to mining and recovery factors, production costs, and silver and gold prices, have been calculated using the Company's assessment of available exploration data and have been audited by independent mining engineers. These estimates represent the amount of silver and gold that the Company estimates can be mined, processed and sold at prices at least sufficient to recover its estimated total costs of production, remaining investment and anticipated additional expenditures. Reserve engineering is a subjective process of estimating underground deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgement. Estimates of different engineers may vary. Reserve estimates may require revisions based on actual production results. In addition, a sustained decline in the market price of silver and gold may render mineral resources containing relatively lower grades of silver and gold mineralisation uneconomic to recover and ultimately result in a restatement of reserves. The Company undertakes annual revisions to its mineral resource and ore reserve estimates based upon actual exploration and production results, depletion, new information on geology and fluctuations in production, operating and other costs and economic parameters such as silver and gold prices and exchange rates. These factors may result in reductions in the Company's ore reserve estimates. The failure of the reserves to meet the Company's recovery expectations may have a material adverse effect on the life-of-mine plans and, consequently on the total value of the Company's mining asset base which would, in turn, have an adverse effect upon the Company's business, prospects, results of operations or financial condition.

The Company agreed to sell significant portions of its future production as a requirement of certain syndicated loan financing. The Company may fail to produce enough silver to satisfy its delivery obligations or may incur significant losses or lose opportunities for gains. In addition, if the Company is unable to adequately control its production costs, the Company may have to sell silver at/or below cost.

In accordance with the terms of certain syndicated loan financing, described under "Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Facility Agreement with ABN Amro Bank N.V.", the Company undertook to sell certain minimum quantities of gold during 2005 and 2006 and silver for each of the four years from 2005 to 2008 at the current fixing prices determined by the London Bullion Market Association (the "LBMA"), subject to certain price limits in respect of the minimum quantities of silver that the Company agreed to sell for each of the three-year period 2005-2007. In particular, the Company agreed to sell a minimum quantity of 43.3 and 42.4 thousand ounces of gold during 2005 and 2006, respectively and, with regard to its expected silver production, a minimum quantity of 8.1, 9.0, 13.9 and 9.0 million ounces for each of 2005, 2006, 2007 and 2008, respectively. For the year 2007, the Company undertook to sell the agreed minimum quantity of silver at London Bullion Market fixing prices, subject to a minimum of $6.0 per ounce and a maximum price of $8.6 per ounce. For more details on these agreements, see "Operating and Financial Review—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver" and "General Information—Material Contracts—Export Contracts for Sales of Future Production".

No assurance can be given that these agreements will benefit the Company. There is in fact the possibility that, for the year ended 31 December 2007, the Company locked in forward deliveries of silver at prices which may be lower than the market prices at which silver will be traded at the time of the relevant deliveries and, as a result, the Company may be prevented from realising the positive impact on income from any increase in the price of silver on the portion of production which is subject to the maximum prices agreed in the contract. For instance, during the first nine months of 2006, 60.0% of the Company's silver production was sold, in accordance with such agreements, fixed in a range between $6.66 per ounce and $7.95 per ounce, significantly below the average afternoon London Bullion Market fixing price of $11.23. Consequently, the Company has not been able to achieve the margins that it otherwise could in relation to such silver production due to the agreed price limits, which prevented the Company from realising potential gains resulting from increases in the market price of silver.

In addition, if the Company does not produce enough silver, it may not be able to satisfy its future delivery obligations or, in order to satisfy such obligations, the Company may decide to purchase silver on the market rather than repay and terminate its loan obligations. If the market price at which the Company may have to purchase the metal is higher than the price at which the Company will resell such metal, the Company may incur significant losses.

Finally, due to the fixed prices at which the Company agreed to sell the amount of silver specified above during the year 2007, the Company is subject to pressure in order to contain increases in its production costs. Several factors may affect the Company's costs, including, but not limited to, those described elsewhere under this section "Risk Factors" and under "Operating and Financial Review—Significant Factors Affecting the Company's Results of Operations". A significant increase in the Company's costs may cause the Company to sell part of its silver production, which is subject to maximum price limits, at a significant loss.

The above-mentioned agreements are not accounted for on a mark-to-market basis on the Company's financial statements as they fall under the normal purchase sales exemption. Should the Company fail to deliver silver in accordance with its obligations, then the Company may have to pay damages, as calculated pursuant to the relevant agreements. Any of the circumstances described above may result in a material adverse effect on the Company's business, prospects, results of operations or financial condition.

The Company will incur significant capital expenditures in order to increase its production levels and improve overall efficiency which it may not be able to finance.

The Company's business requires significant capital expenditures with respect to development, maintenance, production, transport, exploration and gold and silver refining. The Company's business plans require substantial capital expenditures for the foreseeable future for the purposes of, among other things, expanding certain of the Company's production companies and increasing production efficiency. In particular, at certain of its sites, the Company is planning to gradually transition from open-pit mining to underground mining, which may require additional capital expenditure. The Company's ability to secure debt or equity financing in amounts sufficient to meet its financial needs could be adversely affected by many factors beyond the Company's control, including, but not limited to, economic conditions in Russia and the health of the Russian banking sector. There is no assurance that the Company will be able to raise any necessary additional funds through bank financing or the issuances of equity or debt securities on terms acceptable to it, if at all. If the Company is unable to raise the necessary financing, it will have to revise its planned capital expenditures. Such possible reduction could adversely affect the Company's ability to expand its business and meet production targets, and if the reductions are severe enough, they could adversely affect the Company's ability to maintain its production at current levels.

The Company is dependent on obtaining and maintaining licences necessary for the operation of its business.

The Company's exploration, mining and processing activities as well as the exploration of precious metals are dependent upon obtaining and maintaining appropriate licences, permits and other regulatory consents. There can be no assurance that when granted they will be renewed or, if so, on what terms. The Company may not be able to convert any of its exploration licences into a production licence, given that the procedure concerning such conversion is not automatic and is subject to opinions and pronouncements of various governmental authorities. The Company may be required to make payments (calculated on the basis of all governmental exploration expenditures related to the area subject to the licence), which may exceed the market value of the licence.

The licensing regime in Russia for the exploration and production of gold and silver is governed primarily by the Subsoil Law and regulations promulgated thereunder. All of the Company's licences are issued for a period of up to 25 years, and it will have to terminate all works on the licensed territory on the licence expiry date unless an extension is granted. For a list of the licences under which the Company currently operates, see "Business—Description of Properties and Mining Operations—Overview". Rights granted by subsoil licences may be subject to limitations, suspensions or termination under certain circumstances. The Company's subsoil rights may be terminated if, among other things, the Company fails to comply with the licence requirements, start production by the required date, meet annual production requirements, make timely payments of levies and taxes, provide required information or fulfil any capital expenditure or production obligations set forth in the Company's licence agreements. In June 2005, the Government of the Russian Federation introduced to the State Duma a new version of the Subsoil Law, which is currently undergoing review and revision by various Russian state agencies. The nature and scope of regulation of any new Subsoil Law adopted by the Russian government and its potential impact on the Company's operations are currently uncertain.

If the Company fails to fulfil the specific terms of any of its licences or if the Company operates in the licence areas in a manner that is considered to violate Russian law, government regulators may impose fines or suspend, terminate or fail to renew its licences. This may lead to operation or production interruptions, and the Company may not be able to recover the value of fixed assets, including processing plants and underground equipment in which the Company invested time and money. Recent press reports indicate that the Federal Service for Supervision of the Use of Natural Resources has attempted to revoke five gold mining licences of Peter Hambro Mining, a UK-based company producing gold in Russia, for failure to comply with the terms of its licences and violation of Russian environmental legislation. In particular, Peter Hambro reportedly failed to prepare and provide required documentation on the development of deposits in due time, as well as committed certain environmental violations, such as illegal water intake. If successful, such attempt may result in termination by the Federal Agency for Subsoil Use of the licences. Any such actions taken or threatened to be taken by the Russian regulatory authorities in respect of the Company's licences for breach of licence terms could have a material adverse effect on the Company's business, prospects, results of operations, financial condition or on the price of the GDRs or the Ordinary Shares.

From time to time, the Company may need to extend, renew or renegotiate certain terms of its subsoil licences. For example, the Company has applied to renegotiate the terms of its exploration and production licence at Lunnoye in order to reduce the required minimum production levels from 2007. Pending the application to amend the terms of the licence, the Company's production plan envisages production at Lunnoye at reduced levels, as compared with the terms of the licence. In addition, the Company has applied for renewal and conversion of its exploration licence at Anenskiy (that expired in December 2006) to a combined production and exploration licence. Although in the past the Company has successfully renegotiated certain terms of its licences, no assurance can be given that the Company will be able to successfully extend, renew or renegotiate the terms of its licences in the future. Any failure by the Company to extend, renew or renegotiate the terms of its licences could result in limitation, suspension or termination of its licences and have a material adverse affect on the Company's business, prospects, results of operations, financial condition or on the price of GDRs or the Ordinary Shares.

In addition, should any of the licences be terminated prior to their expiration, the Company will have to bear conservation/rehabilitation costs of the respective extraction infrastructure and territory. Any suspension, termination or failure to obtain or renew necessary licences could have a material adverse effect on the Company's business, prospects, results of operations, financial condition or on the price of the GDRs or the Ordinary Shares.

In connection with the Company's financing arrangements with ABN Amro Bank N.V., two of the Company's production subsidiaries, Silver Territory and Magadan Silver, have applied for export licences to export silver to ABN Amro Bank N.V. Any delay in obtaining the licences or failure to obtain them may result in a default under the financing agreements with ABN Amro Bank N.V. and cross-default under the terms of other indebtedness. Any default or acceleration can have a material adverse effect on the Company's business, prospects, results of operations, financial condition or on the price of the GDRs or the Ordinary Shares.

The Company's accounting system and internal controls may not be as sophisticated as those of companies organised in western jurisdictions with a longer history of compliance with generally accepted accounting principles.

The Company's system of internal controls and financial reporting requires certain improvements to provide accurate and timely conversion of Russian accounting standards financial statements into US GAAP financial statements. The Company does not have a fully integrated information system. Each of the Company's subsidiaries prepares separate financial statements under Russian accounting standards for statutory purposes. The preparation of US GAAP financial statements is primarily a manual process that involves, first, the transformation of the statutory financial statements of the Company's subsidiaries into US GAAP financial statements through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming and requires significant attention from the Company's senior accounting personnel. Moreover, due to increasing demand for the limited number of accounting personnel with US GAAP or IFRS expertise in Russia, the Company may face difficulty in hiring and retaining such personnel. The Company has not implemented accounting systems and internal controls that are commonplace in countries with a longer history of US GAAP or IFRS reporting, and the preparation of financial statements requires significantly more time for the Company than it does for companies with a longer history of US GAAP or IFRS reporting. The Company has taken, and plans to take, steps to further improve its accounting systems and internal controls, including, among other things, the development and documentation of control procedures over the financial statement preparation process. Despite these steps and in light of the Company's past and planned growth, there is a risk that misstatements in amounts that would be material in relation to the consolidated financial statements of the Company may be made and not be detected within a timely period by employees in the normal course of performing their assigned functions potentially leading to liability for such misstatements, or that the Company's US GAAP financial statements will not be prepared in a timely manner in accordance with the requirements of the London Stock Exchange. In addition, shortcomings in internal controls of the Company may lead to mistakes and misstatements in the Company's Russian statutory financial statements and tax filings, thus leading to liability for such mistakes and misstatements.

The Company's proposed strategic alliance with AngloGold Ashanti, joint venture with Mongolrostsvetmet and any future partnerships or joint ventures may limit its future opportunities, require significant resources and/or result in significant unanticipated losses, costs or liabilities.

The Company expects that its proposed strategic alliance with AngloGold Ashanti will be an important aspect of its strategy of exploration and development of new mining properties. However, no assurance can be given that the proposed strategic alliance will be created on the terms described in this Prospectus or at all. In accordance with the terms of the Company's proposed strategic alliance, the Company and AngloGold Ashanti identified an "exclusive area" in the eastern part of Russia and agreed to pursue any gold mining opportunity in such areas only through the proposed strategic alliance, unless one of the parties elects not to pursue it. In addition, the Company identified certain other areas in respect of which either party to the proposed strategic alliance may pursue a gold mining opportunity solely and independently, but not together with a third party as part of a consortium, unless the proposed strategic alliance elects not to pursue such opportunity. For more information on the areas concerned by the proposed strategic alliance, see "Business—Strategic Alliance and Joint Venture—Proposed Strategic Alliance with AngloGold Ashanti". As a result of the Company's proposed strategic alliance, the Company may be prevented from pursuing gold mining opportunities in these areas independently from AngloGold Ashanti or with other parties.

In December 2006, the Company formed a limited liability company to pursue a joint venture with Mongolrostsvetmet to develop the Asgat polymetallic silver deposit in Mongolia. The proposed joint venture with Mongolrostsvetmet may not be established on the terms described in this Prospectus or at all. Certain groups opposed to the joint venture have voiced opposition to the development of the deposit by the Company and its partners in Mongolia, and the joint venture may face challenges relating to its mineral rights. Any licence rights granted to develop the Asgat deposit may be revoked or suspended by the Mongolian government.

The Company's investment in the proposed strategic alliance and the joint venture will be subject to various risks since it may not be able to exercise an adequate degree of control over the activities of its partners. Because the Company does not control the proposed strategic alliance or the joint venture, its management may not operate the proposed strategic alliance or the joint venture in a manner that is favourable to the Company. Decisions that reduce gold production, revenues or profitability, over which the Company may not have control, could serve to reduce the Company's cash flows and decrease its profitability. The Company's proposed strategic alliance partner, AngloGold Ashanti, and joint venture partner, Mongolrostsvetmet, are subject to various risks resulting from the nature of their business and the location of their operations, which could, affect the business, prospects, results of operations or financial condition of the proposed strategic alliance or joint venture.

The successful operation of the Company's proposed strategic alliance and the joint venture is dependent on maintaining good relationships with its alliance and joint venture partners, who may have different interests to the Company. If the Company is unable to maintain good relationships with AngloGold Ashanti or Mongolrostsvetmet or if the Company is unable to resolve conflicts with them in a mutually acceptable manner, its ability to operate the proposed strategic alliance or the joint venture will be materially adversely affected and its results of operations may be harmed. In addition, the Company may be unable to effectively integrate the exploration, development or production activities of the proposed strategic alliance or the joint venture with its existing mining operations.

In addition to the Company's proposed strategic alliance with AngloGold Ashanti and joint venture with Mongolrostsvetmet, in the future the Company may seek to grow its company and businesses by entering into other partnerships or joint ventures. Any current or future partnership or joint venture may require the Company to make a significant cash investment, issue stock or incur substantial debt. In addition, partnerships or joint ventures may require significant managerial attention, which may be diverted from the Company's other operations and could entail a number of additional risks, including, problems with effective integration of operations, inability to maintain key pre-acquisition business relationships, increased operating costs, exposure to unanticipated liabilities, and difficulties in realising projected efficiencies, synergies and cost savings.

The Company may experience problems in integrating and managing new acquisitions.

The Company's objective is to grow the Company's business by improving its existing operations, although the Company does not exclude growth through acquisition opportunities. The Company's ability to successfully acquire mining assets may be hindered by the following:

- the Company may not be able to obtain necessary approvals from regulatory authorities; and
- the Company's failure to integrate the operations of an acquired business in a timely and efficient manner, to create anticipated synergies and economies of scale, to maintain its financial and strategic focus while integrating the acquired business, and to implement uniform standards, controls, procedures and policies at the acquired business.

Acquiring additional businesses could place increased pressure on the Company's cash flow if such acquisitions are paid for in cash. Achievement of the benefits expected from integration, restructuring and consolidation may require the Company to incur significant costs in connection with, among other things, implementing financial and planning systems. In addition, such integration, restructuring and consolidation may require significant attention from the Company's management team, which may divert attention from its day-to-day business. These difficulties associated with acquiring, integrating, restructuring and consolidating new assets could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

The Company must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put the Company into default.

The Company is relatively leveraged, with total short and long-term borrowings of $384.8 million and total shareholders' equity of $178.6 million as of 30 September 2006. The Company is subject to certain financial and other restrictive covenants under the terms of its indebtedness that may limit its ability to, among other things:

- borrow money;
- create liens;
- give guarantees;
- make acquisitions;
- sell or otherwise dispose of assets;
- engage in mergers, acquisitions or consolidations;

- issue and repurchase shares; and
- declare and pay dividends.

The terms of the Company's indebtedness also require it to operate within certain specified financial ratios. For example under the credit agreement with ABN AMRO Bank N.V., the Company is obliged to comply with covenants regarding ratios calculated on the basis of the Company's debt, interest expense, EBITDA, net worth and sales under its export contracts. In addition, some of the Company's indebtedness is secured by pledges of equipment and inventory.

The need to observe financial ratios and other restrictions could hinder the Company's ability to carry out its business strategy. In addition, a breach of the terms of the Company's indebtedness could cause a default or cross-default under the terms of its indebtedness causing some or all of its indebtedness to become due and payable. For example, during 2006, the Company was in breach of covenants under the provisions of its loan facility with Standard Bank Limited ("Standard Bank"), which has now been repaid. Under the terms of its loan facilities with Sberbank, the Company was required to obtain consent for the granting of security interests under its subsequent financing arrangements. During 2006, the Company breached these covenants by pledging collateral to secure its US$100 million loan from Gazprombank without obtaining prior written approval from Sberbank. The Company has indicated its intention to prepay the Gazprombank loan during the course of 2007, and Sberbank has confirmed in writing that, taking into account the planned early redemption during 2007 of the Gazprombank loan, it will not demand early redemption of the Sberbank loans. If the Company were to fail to prepay the Gazprombank loan by the end of 2007, Sberbank may thereafter seek to accelerate its own loans, which could in turn lead to the acceleration of other indebtedness of the Group. Any such breach or default could have a material adverse effect on the Company's business, prospects, financial condition and results of operations and/or on the price of GDRs or the Ordinary Shares.

It is uncertain whether the Company's assets would be sufficient to generate the funds necessary to repay the Company's indebtedness in the event of its acceleration. Any acceleration or default under the Company's indebtedness could have a materially adverse effect on the Company's liquidity and its ability to meet its working capital and other financing needs.

The Company is also exposed to interest rate risk on its borrowings that have a variable interest rate (exposing the Company to the risk of short-term interest fluctuations or "interest cash flow risk"), as well as borrowings that are short-term in nature (exposing its refinancing activities to risks associated with changes in the applicable interest rate). For a discussion of the Company's indebtedness and interest rate risk exposure, see "Operating and Financial Review—Quantitative and Qualitative Disclosure about Market Risks—Interest Rate Risk".

The Company's competitive position and future prospects depend on the experience and expertise of certain key individuals. A change of control from the Company's controlling shareholder could lead to an event of default and acceleration under the Company's financings.

The involvement in the development of Polymetal of Mr. Suleyman Kerimov in his capacity as the Company's controlling shareholder and services of certain key individuals (such as Mr. Alexander Mosionzhik, the Company's Chairman, and Mr. Vitaly Nesis, the Company's CEO) and the employment of their resources have been, and the Company believes will continue to be, important in the pursuit and implementation of the Company's strategy. In particular, the Company depends on its current senior management including, in particular, the Company's CEO, Mr. Nesis, for the implementation of its strategy and the operation of its day-to-day activities. Furthermore, personal connections and relationships of these individuals are important to the conduct and the future of Polymetal's business. However, there can be no assurance that these individuals will continue to be involved in or make their services available to the Company in the future. Polymetal's business could suffer if any of these individuals ceased to be involved in the development of the Company.

The loss or diminution of the involvement of the Company's controlling shareholder, the Chairman or senior managers or an inability to attract and retain additional senior management personnel could have a material adverse effect on the Company's business, financial condition, results of operations or prospects. Moreover, competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect Polymetal's ability to retain existing senior management and attract additional suitably qualified senior management personnel. As a result, the departure of key managers could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Any event or circumstance affecting Mr. Kerimov as a natural person, such as divorce, incapacity or death, may have an impact on the control over, and ownership of his interest in, the Company, or may lead to a change of control of the Company. In addition, Mr. Kerimov is a member of the State Duma, the lower chamber of the Russian Parliament. Recently adopted Russian legislation provides that individuals holding state service positions will be required, upon adoption of implementing regulations, to transfer into trust management their shares in companies if ownership of such shares would lead to a conflict of interest. The impact of such legislation and regulations, if adopted, on Mr. Kerimov as a member of the State Duma and his control or ownership interests in the Company is unclear. Any change of control of the Company may cause an event of default under certain of the Company's financing agreements causing cross defaults in other facilities and could adversely affect the Company's business, prospects, results of operations or financial condition or the price of the Ordinary Shares or the GDRs.

The locations of the Company's silver and gold operations are subject to severe climatic conditions which could disrupt the delivery of equipment and supplies and the supply of power and fuel, as well as affect the Company's silver and gold production and operations.

The Company's silver and gold mining facilities are located in remote parts of eastern Russia and are subject to severe weather conditions, especially in Khakanja, where delivery of supplies to the facility generally occurs via river or sea during the five months of the year when the local port is accessible. Accordingly, the scheduling of activities at the Company's facilities is complex. Problems or issues which may arise with the supply of goods or services to remote facilities due to the severe weather conditions could have a serious impact on the Company's business, prospects, results of operations or financial condition.

The Company faces foreign exchange risks.

The Company's revenues are denominated in U.S. dollars, and most of its costs are denominated in roubles. In addition, substantially all of the Company's debt at 30 September 2006 is denominated in U.S. dollars and accordingly the depreciation of the rouble against the U.S. dollar, would increase the Company's debt service obligations. As a result of the above, the Company's results of operations are subject to exchange rate fluctuations which may negatively affect the Company's business, prospects, results of operations or financial condition.

The Company is increasingly required to consider and ensure the sustainable development of, and provide benefits to, the communities in which it operates.

As a consequence of the Company's leading market position and the perception that its activities have a high impact on the social and physical environment where it operates, the Company faces increasing public scrutiny of its activities. In particular, the Company is under pressure to demonstrate that, as it seeks to generate satisfactory returns on investment to shareholders, other "stakeholders"—including employees, communities surrounding operations and the country in which it operates—benefit and will continue to benefit from the Company's commercial activities. In addition, under the conditions of the Company's licences, the Company's subsidiaries are each obligated to hire employees primarily from areas in which they operate and have a limited ability to reduce the numbers of employees or to hire employees from regions other than those where that subsidiary operates. The potential consequences of such pressures, especially if not effectively managed, include damage to the Company's reputation and social spending obligations which could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

The Company is dependent upon its relationships with a limited number of independent third party contractors for the transportation of ore, concentrates and consumables.

The Company relies on the services of independent contractors to meet its transportation needs. The Company cannot guarantee that it will be able to maintain relationships with them in the future. The Company's contracts with each of these third parties are, in most cases, terminable upon short notice by either party. If one of the Company's key contractors decides to terminate its relationship with the Company, it may have trouble replacing the contractor with an equally qualified contractor, and it may be a number of months before such a replacement is found. If this happens, the Company's production and operations may be subject to interruptions. The Company competes with other mining companies for the services of these transportation companies, and the pool of contractors able to adequately supply the Company's business needs is limited, which has the effect of increasing the price the Company must pay to obtain their services. If the Company is unable to retain such independent contractor services or needs to increase the amount paid for their services, the Company's business, prospects, results of operations or financial condition may be materially adversely affected.

The Company's insurance coverage may prove inadequate to satisfy future claims against it or to protect the Company against natural disasters or operational catastrophes.

The Company may become subject to liabilities, including liabilities for pollution or other hazards, against which the Company is either not adequately insured or insured at all. The Company's insurance policies contain exclusions and limitations on coverage and may not continue to be available at economically acceptable premiums. As a result, in the future the Company's insurance coverage may not cover the extent of claims against it for environmental or industrial accidents or pollution.

Exploration for and production, refining and distribution of gold and silver is hazardous. Natural disasters, operator error or other occurrences can result in spills of hazardous chemicals, fires and equipment failure, which can injure or kill people, damage or destroy pits, mines or equipment and production facilities and damage property and the environment. Operations are subject to governmental regulations as well as interruptions or termination by governmental authorities based on environmental and other considerations.

Mining insurance in Russia is relatively undeveloped and, accordingly, the available local cover is relatively limited. The Company does not have full coverage for all of its plant facilities, for business interruption, for third-party liability in respect of property or for environmental damage arising from accidents on its property or relating to its operations.

Until the Company is able to obtain full insurance coverage on acceptable terms, there is a risk that losses and liabilities arising from such events could significantly increase its costs and have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

If past or future interested party transactions or major transactions in which the Company or its subsidiaries are involved are successfully challenged, they could be invalidated.

Russian law requires a company that enters into an interested party transaction to obtain special approvals. See "Description of Share Capital and Applicable Russian Legislation—Interested Party Transactions". The Company and its subsidiaries have in the past carried out, and continue to carry out, transactions with other companies in the Group that may be considered "interested party transactions" under Russian law, requiring approval by a majority vote of the "independent disinterested directors" or of the "disinterested shareholders", in advance of a particular transaction. In particular, "interested party transactions" entered into by Aurum, its exploration subsidiary, in which the Company holds 85% of shares, are subject to the approval by the minority shareholder.

Russian law also requires a company that enters into major transactions to obtain special approvals. See "Description of Share Capital and Applicable Russian Legislation—Major Transactions". The Company and its subsidiaries have in the past carried out, and continue to carry out, certain transactions that may be considered "major transactions" under Russian law requiring special approval and possibly giving rise to appraisal rights to its shareholders. In the past, certain transactions between and among the Company, its subsidiaries and affiliates did not receive approval as interested party transactions or major transactions in accordance with the procedures set forth in Russian law. In addition, the Company might fail to obtain proper approvals for interested party transactions or major transactions in the future, or the Company's minority shareholders or minority shareholders of its subsidiaries might prevent the approval of such transactions in the future.

In the event that the minority shareholders successfully contest existing or future interested party transactions or major transactions, or prevent the approval of these transactions in the future, this could limit the Company's operational flexibility and have a material adverse affect on the Company's business, prospects, results of operations, financial condition or the price of GDRs or the Ordinary Shares.

The Group may be subject to liability for back taxes and related interest and penalties as a result of certain past transactions.

During 2004, in connection with financing provided by Standard Bank Limited ("SBL"), the group made 51 sales of gold and silver, for an aggregate purchase price of approximately U.S.$30.3 million, to Polyprom Trading Limited ("Polyprom"), an offshore entity owned by ICT, the Company's sole shareholder during that period. Polyprom, in turn, resold the gold and silver to SBL for an aggregate purchase price of approximately U.S.$36.6 million, and provided various forms of security with respect to the SBL financing. The Group discontinued such sales to Polyprom in early 2005. Some sales to Polyprom may be challenged as having been made at prices outside the range of prevailing fair market prices, as provided by Russian tax law for sales between entities under common control. Russian transfer pricing rules are relatively new and undeveloped, are subject to contradictory interpretations and provide limited guidance as to their application in similar circumstances. See "—Risks Related to the Russian Federation—Russian transfer pricing rules may allow tax authorities to challenge some of the Company's transactions".

Although no claims have been made against the Group, there can be no assurance that the Russian tax authorities will not challenge the prices at which the gold and silver were sold to Polyprom and seek to tax the related profits within the applicable period during which such challenges can be brought, which generally is three years. While the impact of any such challenge cannot be reliably estimated, the Group believes that if the Group were taxed on all of the profit realised by Polyprom on Group sales, its maximum exposure would be approximately U.S. $2.0 million at present, including related penalties and interest. The Group has not established reserves in relation to this potential tax liability.

During the period from June 2003 until December 2005, one of the Group's subsidiaries, in connection with financing provided by Nomos Bank ("Nomos"), a related party at the time, periodically shipped gold to Nomos for deposit in metals accounts. Simultaneously, the subsidiary entered into transactions with Nomos, including financings from Nomos and its affiliates, which were later settled through the sale of gold in the metals account to Nomos at the Group's instruction. For Russian accounting and tax purposes, the Company recognised revenue, and related profits, from these sales only at the time that title to the gold was formally transferred to Nomos. In its US GAAP consolidated financial statements, the Company recognised such revenue at the time of the initial deposit of gold in the metals accounts.

Under applicable Russian tax rules, the tax authorities may claim that the sale of the gold should have been recognised for tax purposes upon the initial deposit of the gold in the metals accounts. While the Group believes that its position is correct and sustainable and that, therefore, a successful challenge by the Russian tax authorities to the timing of sales to Nomos is unlikely, there can be no assurance that the Russian tax authorities will not bring such a claim. If Russian tax authorities were to successfully challenge its position, the Company could be subject to interest, fines and penalties for the untimely payment of the corresponding profits tax, which the Company estimates to be approximately U.S.$2.0 million at present. The Group has not established reserves in relation to this potential liability for such interest, fines and penalties.

Any attempt by Russian authorities to pursue any action against the Group or its management or to assess any tax liabilities, including any fines, penalties, criminal prosecution or other sanctions for any back taxes that may have been payable, against the Group or its management arising out of the prior transactions with Polyprom or with Nomos could have a material adverse effect on the Group's reputation, business, prospects, results of operations or financial condition and the price of the Securities.

After 31 December 2008, the Company may be subject to the requirement to present its financial statements under International Financial Reporting Standards as adopted by the EU or may be subject to additional reporting requirements, which may cause delays in the preparation of its financial information.

The Company currently prepares its financial statements in accordance with US GAAP. In December 2004, the European Parliament and Council of the European Union adopted Directive 2004/109/EC (the "Transparency Directive"). Following the implementation of the Transparency Directive, all companies with securities admitted to trading on a regulated market in the European Economic Area (except debt securities with minimum denominations of €50,000 or more), including the Company following the completion of the Offering, will be required to prepare and publish annual and semi-annual reports containing financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRS") or accounting standards determined to be equivalent to EU IFRS by the European Commission. On 4 December 2006, the European Commission published a decision in which it allowed issuers whose registered office is located outside the EU to apply US GAAP (or certain other generally accepted accounting principles) to their annual and semi-annual financial statements until financial years starting on or after 1 January 2009, and deferred the establishment of the equivalence definition and mechanism until 2008. Therefore, it is currently uncertain whether financial statements prepared under US GAAP will be considered equivalent (or equivalent subject to remedies) to EU IFRS after 31 December 2008. Consequently, from 1 January 2009 the Company may be required to prepare and publish its financial statements under EU IFRS or, if US GAAP financial statements are considered equivalent but subject to remedies, to prepare and publish supplementary information as required by the equivalence mechanism. The Company has not conducted its analysis of the expected impact of reporting under EU IFRS. As US GAAP currently differs in many respects from EU IFRS, applying EU IFRS to the Company's consolidated financial statements may have a material impact on the Company's reported results and financial position. Any requirements either to present financial statements under EU IFRS or present supplementary information in addition to US GAAP financial statements may require significant costs and may also cause delays in the preparation and publication of the Company's results.

If one of the Company's subsidiaries is forced into liquidation because net assets are either negative or below the minimum amount of charter capital required under Russian law, the Company's results of operations could suffer.

If at the end of any financial year a Russian company's net assets, as determined in accordance with Russian accounting regulations, fall below certain minimum legal requirements, the company is required to convene a shareholders meeting to either decrease its charter capital (if the amount of its net assets is less than its charter capital) or to adopt a decision on its liquidation (if the amount of its net assets is less than the minimum statutory charter capital). If it fails to do so within a "reasonable period", a term which has no judicial or official interpretation, the company's creditors may request early termination or acceleration of the company's obligations to them, as well as damages, and governmental authorities may seek to cause the involuntary liquidation of the company. It is unclear under Russian law whether a historical violation of this requirement may be retroactively cured, even if a company later comes into compliance with the requirement. On occasion, Russian courts have ordered the involuntary liquidation of a company for having negative net assets even if the company has continued to fulfil its obligations and had net assets in excess of the minimum amount at the time of liquidation.

In past years, the net assets of some of the Company's subsidiaries, as reflected in their Russian accounting statements, were below the minimum legal requirements. As of the end of 2005, the following subsidiaries had net assets below the minimum statutory charter capital: Silver Territory, Georazvedka, Yenisey Mining and Geological Company, Imitzoloto, Dukat Mining Company, Northern Urals Mining Company, Aurum, and Trading House Polymetal. Polymetal Engineering, Polymetal Management and Resources Albazino had net assets below its charter capital as of the end of 2005. These subsidiaries are material to the Company's operations and/or hold licences material to the Company's business. These subsidiaries have not decreased their charter capital or applied for voluntary liquidation. The Company believes that such subsidiaries are solvent and continue to meet all of their obligations to creditors.

If the Company's subsidiaries were to be liquidated involuntarily, the Company would be forced to reorganise the operations currently conducted through such subsidiaries. In addition, the liquidation of any of the Company's subsidiaries would result in the termination of its existing licences, and investors may not be assured that the Company would be able to secure new licences needed to continue its operations. Accordingly, any liquidation could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

Risks Relating to the Gold and Silver Mining Industry

Mineral Exploration Risks

The Company's long-term growth and profitability will depend, in part, on its ability to identify and acquire additional mineral exploration rights, ore reserves and operating mines and on the costs and results of the Company's continued exploration programmes. Exploration activities are speculative and are often unproductive. These activities also often require substantial expenditure to:

- establish the presence, and to quantify the extent and grades (metal content), of mineralised material through exploration drilling;
- determine appropriate metallurgical recovery processes to extract silver and gold from the ore;
- estimate ore reserves;
- undertake feasibility studies and estimate the technical and economic viability of the project; and
- construct, renovate or expand mining and processing facilities.

Many exploration programmes, including some of the Company's, may not result in the discovery of mineralisation, and any mineralisation discovered may not be of sufficient quantity or quality to be profitably mined. The Company's mineral exploration rights may not contain commercially exploitable ore reserves of silver or gold. Uncertainties as to the metallurgical recovery of any silver or gold discovered may not warrant mining on the basis of available technology. In addition, once silver or gold mineralisation is discovered it can take several years to determine whether ore reserves exist. During this time the economic feasibility of production may change owing to fluctuations in factors that affect revenue, as well as cash and other operating costs.

As a result of these uncertainties, the Company's exploration programmes and acquisitions of mineral assets may not result in the expansion or replacement of the current production with new ore reserves or operations. This could adversely affect the Company's business, prospects, results of operations or financial condition.

Development risks

The Company's profitability depends, in part, on the actual economic returns and the actual costs of developing mines, which may differ significantly from its current estimates. The development of the Company's mining projects may be subject to unexpected problems and delays.

The Company's decision to develop a mineral property is generally based, in the case of an extension or a new development, on the results of a feasibility study. Feasibility studies estimate the expected or anticipated project economic returns. These estimates are based on assumptions regarding:

- future metal prices;
- anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed;
- anticipated recovery rates of silver and/or gold from the ore;
- anticipated capital expenditure and cash operating costs; and
- the required return on investment.

Operating costs and capital expenditure are determined particularly by the costs of the commodity inputs, including the cost of fuel, chemical reagents, explosives, tires and steel, that are consumed in mining activities. There are a number of uncertainties inherent in the development and construction of an extension to an existing mine or in the development and construction of any new mine. In addition to those discussed above these uncertainties include:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the availability and cost of skilled labour, power, water and transportation facilities;
- the availability and cost of appropriate smelting and refining arrangements;
- the need to obtain necessary environmental and other governmental permits and the timing of those permits; and
- the availability of funds to finance construction and development activities.

Technical and technological decisions made during each stage of the development on the bases of the limited information available to the Company may reveal to be wrong and, as a result, lead to throughput and/or recovery and operating costs being worse than estimated in its feasibility studies. The costs, timing and complexities of mine development and construction can increase because of the remote location of many mining properties. New mining operations could experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement of mineral production could occur. Operating cost and capital expenditure estimates could fluctuate considerably as a result of fluctuations in the prices of commodities consumed in the construction and operation of mining projects. The Company's long-term operating and financial results may also be affected by its production plan, which may limit the Company's ability to change its level of output and its cost structure in the event of changes in the business environment. For example, the Company expects to produce less gold in 2007 than in 2006 due to its decision to target lower grade ore at Khakanja. Accordingly, the Company's future development activities may not result in the expansion or replacement of current production with new production, or one or more of these new production sites or facilities may be less profitable than currently anticipated or may not be profitable at all.

Mining industry risks

The exploration, development and production of natural resources is an activity that involves a great level of uncertainty and therefore risk associated with operating parameters and costs. These can be difficult to predict and are often affected by factors, including risks and hazards, outside the Company's control. These factors include, but are not limited to:

- environmental hazards, including discharge of metals, pollutants or hazardous chemicals;
- industrial accidents;
- underground fires;
- flooding of mines;
- labour disputes;
- electricity stoppages;
- equipment or asset failures;
- uncertainty regarding the time required to obtain permits and authorisations, including those regarding environment, civil defence, land use and fire safety, required to carry out the Company's business;
- geological uncertainties and unanticipated ground and water conditions, including unexpected rock formation and abnormal pressures;
- unanticipated increases in gold or silver lock-up and inventory levels at the heap-leach operations;
- fall-of-ground accidents in underground operations;
- failure of mining pit slopes and tailings dam;
- legal and regulatory restrictions and changes to such restrictions;
- seismic activity; and
- other natural phenomena, such as floods or inclement weather conditions.

The occurrence of one or more of these events may result in the death of, or personal injury to, miners, the loss of mining equipment, damage to or destruction of mineral properties or production facilities, monetary losses, delays and unanticipated fluctuations in production, environmental damage, administrative fines and potential legal liabilities. As a result, these events may have a material adverse effect on the Company's business, prospects, results of operation or financial condition.

The mining industry is competitive.

The Company faces competition from other silver and gold mining companies in all areas of its operations, including the acquisition of licences and the search for and acquisition of properties producing or possessing the potential to produce silver and gold. Some of these companies have significantly greater resources than the Company. In addition, any alliance among the Company's competitors may represent a threat to the Company's operations to the extent such alliance is larger, better-capitalised, benefits from economies of scale and/or better relationships with state and local authorities or has access to greater resources than the Company.

Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future. If the Company is unable to compete effectively, profitability and business prospects would be adversely affected, which could have a material adverse effect on the Company's business, prospects, results of operation or financial condition.

The Company's operations expose it to the risk of material environmental liabilities.

The Company's operations and properties are subject to numerous environmental laws and regulations. The Company's production facilities generate or release hazardous and toxic substances, chemicals (for instance, cyanide), pollutants and other waste capable of causing damage to human and animal life or to the environment. The discharge, storage and disposal of such waste are subject to environmental regulations, some of which require the clean-up of contamination and reclamation, as well as checking the status of such waste on a regular basis. Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable. The Company accrues the estimated environmental rehabilitation/restoration costs over the operating life of a mine; however, estimates of ultimate rehabilitation/restoration costs are subject to revision as a result of future changes in regulations and cost estimates.

Additionally, under current Russian environmental legislation, the Company must make payments for air emissions, water discharges and waste disposals which are within specified limits as well as make increased payments for emissions, discharges and waste disposals in excess of these limits.

Environmental legislation in Russia is generally weaker and less stringently enforced than in the European Union or the United States. Nonetheless, recent press reports in Russia indicate that environmental protection agencies have become more proactive in carrying out their regulatory functions. Environmental regulation in Russia is likely to evolve in a manner which will require stricter standards and enforcement, increased penalties for non-compliance, more stringent environmental assessment of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

Any change in the current regulatory environment could result in actual costs and liabilities that the Company has not provided for or planned. Moreover, in the course of, or as a result of, an environmental investigation, regulatory authorities in Russia could issue an order reducing or halting production at a facility that has violated environmental standards. In the event that production at one or more of the Company's facilities is partially or wholly prevented due to this type of sanction, Company's business, prospects, results of operations or financial condition or the price of the GDRs or the Ordinary Shares could be materially adversely affected.

The Company's operations are subject to extensive government regulations, which may affect its costs.

Mining operations in Russia are subject to significant federal, regional and local government laws and regulations concerning, among others, licences, mine safety, land use, human health and safety and environmental protection.

Legislation on subsoil rights remains internally inconsistent and vague. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources of the Russian Federation has not issued any interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under Russia's civil law system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees.

More generally, regulatory authorities exercise considerable discretion, at times arguably inconsistent with legislation, with respect to the timing of licence issuance and renewal and in monitoring licensees' compliance with licence terms. Under certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example by initiating legal proceedings where the issuance of a licence may allegedly violate the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra-legal factors. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence, the refusal to issue or renew a licence or the issuance or renewal of a licence in an untimely fashion and/or with conditions that restrict the Company's ability to conduct its operations or to do so profitably. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations.

The Company may incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment, human health and safety, exploration operations, use of explosives, air emissions, water pollution, noxious odour, noise and dust controls, reclamation, solid waste, hazardous waste and wildlife as well as laws protecting the rights of other property owners and the public. As the Company increases production capacity, it will also be required to update existing permits or approvals or obtain new permits or approvals under environmental and health and safety regulations.

Risks Relating to the Russian Federation

Political and governmental instability could have an adverse effect on the value of the GDRs or the Ordinary Shares.

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. Whilst the current President, Vladimir Putin, has generally increased governmental stability and has even accelerated the reform process, a different approach may be adopted over time. In February 2004, President Putin dismissed his entire cabinet, including the Prime Minister, and appointed a new Prime Minister. Shortly thereafter, a presidential decree significantly reduced the number of federal ministries, redistributed certain functions among various agencies of the Government of Russia and overhauled the federal administrative system. Reforms have been implemented under which executives of sub-federal political units are no longer elected by the population, but instead are nominated by the President of Russia and confirmed by the legislature of the sub-federal political unit. Moreover, pursuant to legislation that was adopted on 18 May 2005 and that took effect on 7 December 2006, single member district elections for the State Duma were eliminated, and all votes are now instead cast on a party-list basis. Elections for the State Duma are scheduled for late 2007, and the next presidential election is scheduled for 2008. Current and future changes in the Government, major policy shifts or lack of consensus between the President of Russia, the Government, Russia's parliament and powerful economic groups, could lead to political instability which could have a material adverse effect on the value of investments relating to Russia, including the value of the GDRs or the Ordinary Shares.

The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on the Company's business as well as investments in Russia more generally.

President Putin took office as Prime Minister in 1999 and was elected President in 2000. Since Putin's coming to power, the political and economic situation in Russia has generally become more stable and conducive to investment. However, any significant struggle over the direction of future reforms, or the reversal of the reform programme, could lead to a deterioration in Russia's investment climate that might constrain the Company's ability to obtain financing in the international capital markets, limit its sales in Russia or otherwise have a material adverse effect on the Company's business, prospects, results of operations or financial condition. In May 2005, President Putin ordered the Prime Minister to submit to the Russian parliament draft laws limiting foreign ownership of sectors that "ensure government security". The nature and scope of any such limitations that may be proposed is currently uncertain.

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes from, according to the Russian press, companies such as Yukos, TNK-BP and Vimpelcom. Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. President Putin announced in March 2005 that the Government was considering plans to reform the system of tax collection and administration, and in his annual address to the Federal Assembly on 25 April 2005, President Putin stated that tax authorities should not "terrorise" taxpayers by repeatedly considering the same problems. Partly in response to this statement, on 2 June 2005, the government submitted to the State Duma draft amendments to the Tax Code which were adopted as law on 27 July 2006. The amendments are intended to facilitate the procedure for tax inspections and to make the activities of tax authorities more transparent.

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out in the Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt the Company's business, as well as result in a decrease in the value of the GDRs or the Ordinary Shares. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Potential investors are urged to consult with their own legal and financial advisers before making an investment in the GDRs or the Ordinary Shares.

Economic instability in Russia could adversely affect the Company.

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- high inflation;
- sudden price declines in the natural resource sector;
- growth of black-and-grey-market economics;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- high levels of capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble denominated securities, the Central Bank of Russia (the "CBR") stopped its support of the Russian rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Russian rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

Since the 1998 crisis, the Russian economy has experienced positive trends, such as an increase in gross domestic product, a relatively stable rouble, a reduced rate of inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government has achieved budget surpluses in recent years and has accumulated a sizeable "stabilisation fund", and the CBR has considerable hard currency reserves. No assurance can be given, however, that this positive situation will continue. For example, according to the Ministry for Economic Development and Trade, economic growth in Russia slowed from 7.2% in 2004 to 6.4% in 2005. A downturn in the Russian economy would likely lead to a material adverse effect on the Company's business, prospects, results of operations or financial condition.

Fluctuations in the global economy may have an adverse effect on the Russian Federation's economy and the Company's business.

The Russian Federation's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As the Russian Federation produces and exports large quantities of oil, natural gas and other mineral resources, the Russian economy is especially vulnerable to commodity prices on the world markets and a decline in such prices or the imposition of restrictions on Russian products by principal export markets could slow or disrupt the Russian economy. These developments could severely limit the Company's access to capital and could have a material adverse effect on the Company's business, prospects, financial condition, results of operations or on the price of the GDRs or the Ordinary Shares.

Military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity prices. Any future military conflicts, acts of terrorism or natural disasters of sizeable magnitude could have an adverse effect on the international financial and commodities markets and the global economy.

The Company is exposed to certain social and business environment risks.

The Company's assets are located in Russia, a country which is still moving from a command to market-driven economy. While this process of change is establishing a more developed business environment in Russia, there are still substantial differences between it and the West, and both some of these differences and the ongoing process could adversely affect the Company and its operations. Ethnic, religious, historical and other divisions have, on occasion, given rise to communal tensions, military conflict and terrorist activity. Any spread of violence or terrorism, or political measures taken to counter them, could hinder the operation and the expansion of the Company's business. Recent high-profile cases against prominent businessmen and major companies have caused some concern in relation to the investment climate in Russia, and no assurances can be given that these cases will not affect the public perception of investment into Russia.

Developing corporate and securities laws and regulations may limit the Company's ability to attract future investments.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Ministry of Finance;
- the FSFM;
- the Federal Anti-Monopoly Service;
- the Central Bank of the Russian Federation; and
- various professional self-regulatory organisations.

The regulations of these various authorities are not always co-ordinated and may be contradictory. Russian corporate and securities rules and regulations and their interpretation or application can change rapidly, which may materially adversely affect the Company's ability to conduct securities related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to the Company. Moreover, from time to time, the Company may not be in full compliance with Russian securities law reporting requirements. As a result, the Company may be subject to fines or other enforcement measures despite its best efforts at compliance, which could have a material adverse effect on the Company's business, prospects, results of operations, financial condition and/or on the price of the GDRs on the Ordinary Shares.

Conflicts among federal, regional and local authorities and other political conflicts could create an uncertain operating environment hindering the Company's long-term planning ability and could adversely affect the value of investment in Russia.

The Russian Federation is a federation of 86 different political units. The delineation of authority and jurisdiction among the members of the Russian Federation and the Federal Government, is, in many instances, unclear and remains contested. In addition, ethnic, religious, historical and other divisions have, on occasions, given rise to tensions and, in certain cases, military conflict and terrorist attacks. Lack of consensus between the Federal Government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders the Company's long-term planning efforts and creates uncertainties in its operating environment, both of which may prevent it from effectively and efficiently carrying out its business strategy.

Some of Russia's physical infrastructure is in poor condition, which could disrupt normal business activity.

Russia's physical infrastructure largely dates back to Soviet times and much of it has not been adequately funded and maintained over the last 15 years. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Electricity and heating shortages in some of the Russian Federation's regions have seriously disrupted the local economies. In May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for one day, disrupting normal business activity. Other parts of the country face similar problems. Road conditions throughout Russia are poor. The Russian government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, each of which could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

Risks relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and could subject the Company to material liabilities.

Weaknesses in the Russian legal system and Russian legislation could create an uncertain environment for investment and for business activity. Russia is still developing the legal framework required by a market economy. Several fundamental Russian laws have only recently become effective. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. The limited experience of certain members of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Company or its investors from obtaining effective redress in court proceedings, including in respect of expropriation or nationalisation.

The risks associated with the Russian legal system include:

- the untested nature of the independence of the judiciary;
- the inconsistencies among laws, presidential decrees and governmental and ministerial orders and resolutions;
- the lack of judicial or administrative guidance on interpreting the laws;
- a high degree of discretion on the part of the governmental authorities;
- conflicting local, regional and federal laws and regulations;
- the relative inexperience of judges and courts in interpreting new legal norms;
- the unpredictability of enforcement of both Russian and non-Russian judicial orders and arbitral awards;
- substantial gaps in the legal framework due to the delay or absence of implementing regulations for certain legislation;

- alleged corruption within the judiciary and the governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Disclosure and reporting requirements and anti-money laundering legislation have only recently been enacted in the Russian Federation. The concept of fiduciary duties being owed by management or directors to their companies or shareholders is new to Russian law. Violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on the Company's business, prospects, results of operations or financial condition or on the price of the GDRs or the Ordinary Shares.

Additionally, several fundamental Russian laws have only relatively recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus on the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws are in doubt, and many new laws remain untested. Moreover, the courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. Any or all of these weaknesses could affect the Company's ability to enforce its legal rights in Russia, including rights under its contracts, or to defend against claims by others in Russia.

There may be difficulties in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered.

After the Soviet Union ceased to exist, land reform commenced in Russia and real estate legislation changed continuously over the following years; more than one hundred federal laws, presidential decrees and governmental resolutions were issued. Almost all Russian regions passed their own real estate legislation. Until recently, the land legislation in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body had power to sell, lease or otherwise dispose of land. In 2001, the Russian Civil Code was amended and the new Russian Land Code, as well as a number of other federal laws regulating land use and ownership, were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered. The Company may not have properly obtained or registered the rights to its land plots and buildings, constructions and other real properties located therein. The Company is currently in the process of re-registration of its property rights. However, because of Russia's vast territory, difficulties associated with the country's transitional phase, and the severe climatic conditions of and difficult access to the territory where the Company's land plots and other real properties are located, the process of surveying and title registration may be complicated and last for many years. These uncertainties may have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

The Company may not comply with governmental and administrative real estate regulations in Russia.

In order to use and develop land or other real property in Russia, approvals and consents of various federal, regional or local governmental authorities, including various environmental, sanitation and epidemiological control authorities, are required. The approval and consent requirements vary from locality to locality; they are numerous, sometimes contradictory, subject to change without public notice and occasionally applied retroactively. The enforcement of such requirements is inconsistent and is often arbitrary and selective. Failure to obtain the required approvals and consents may lead to severe consequences to landowners and leaseholders or other property holders. The Company may not have been, and no assurance can be given that it will at all times be, in full compliance with all governmental and administrative real estate regulations in Russia. If any of the Company's existing or prospective sites is found not to be in compliance with applicable regulations, it may be subject to fines or penalties (including civil and administrative penalties applicable to the relevant members of the Company and criminal and administrative penalties applicable to its officers) or the Company's rights to such properties may be affected. Additional compliance with, or any violation of, current and future laws or regulations could result in material expenditures by the Company or otherwise have a material adverse effect on the

Company's business, prospects, results of operations, financial condition or on the price of the GDRs or the Ordinary Shares.

Restrictive currency regulations may adversely affect the Company's business and financial condition.

Notwithstanding significant recent liberalisation of the Russian currency control regime and the abolishment of certain restrictions from 1 January 2007, the current Russian currency control laws and regulations still contain a number of limitations. In particular, bank accounts denominated in any currency with banks located outside of the Russian Federation in countries which are not member states of the Organisation for Economic Co-operation and Development ("OECD") or of the Financial Action Task Force, are subject to the prior registration of such bank accounts with the Russian tax authorities. Moreover, certain currency controls restrictions were not repealed from 1 January 2007 and these include a general prohibition of foreign currency operations between Russian companies (except for the operations specifically listed in the Currency Law and the operations between the authorised banks specifically listed in the CBR regulations) and the requirement to repatriate, subject to certain exemptions, export-related earnings in Russia. Restrictions on the Company's ability to conduct some of these transactions could increase its costs, or prevent the Company from continuing necessary businesses, or from successfully implementing its business strategy which could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

In addition, because of the limited development of the foreign currency market in Russia, the Company may experience difficulty converting roubles into other currencies. Any delay or other difficulty in converting roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit the Company's ability to meet payment and debt obligations, which could result in the acceleration of debt obligations and cross-defaults.

Furthermore, there are only a limited number of reliable rouble-denominated instruments in which the Company may invest its excess cash. Any balances maintained in roubles will give rise to losses if the Russian rouble devalues against major foreign currencies. Moreover, these restrictions could prevent or delay any acquisition opportunities outside of Russia that the Company might wish to pursue.

The Russian banking system remains underdeveloped, and there are a limited number of creditworthy Russian banks.

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretation and inconsistent application. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. Banking supervision is also often inadequate, as a result of which many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

Recently, there has been a rapid increase in lending by Russian banks, which may be accompanied by a deterioration in the credit quality of the loan portfolio of those banks. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate rouble bonds in their portfolios, which is further deteriorating the risk profile of the assets of Russian banks. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including Russian corporate defaults that may occur during any such market downturn or economic slowdown. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced further serious turmoil. As a result of various market rumours and certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the inter-bank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. There are currently also only a limited number of creditworthy Russian banks, most of which are located in Moscow. The Company holds funds in a number of Russian banks, including Alfa Bank, Gazprombank, Sberbank, Uralsib Bank, Vneshtorgbank and subsidiaries of foreign banks, such as ABN Amro Bank and Standard Bank. However, the bankruptcy or insolvency of one or more of these banks could adversely affect the Company's business. Another banking crisis, or the bankruptcy or insolvency of any of the banks which holds the Company's funds, could result in the loss of the Company's income or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Company's business, prospects, results of operations, financial condition or on the price of the GDRs or the Ordinary Shares.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of the Company's Ordinary Shares.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a shareholders' register and is evidenced by extracts from that register. Currently, there is no central share registration system in Russia. Shareholders' registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, official and unofficial governmental actions or the negligence of registrars incapable of compensating shareholders for their misconduct. Russian law does not expressly prohibit affiliation between a registrar and its shareholders, including the entities whose share registers such registrar maintains. This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreements is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Terms and Conditions of the Global Depositary Receipts—Russian Share Register" for a further discussion of the share registration system and registrars in the Russian Federation and the Depositary's obligations.

Uncertainties relating to the Russian tax system complicate the Company's tax planning and business decisions.

Russian tax law and practice is not as clearly established as that of the UK or the US, for example, and the practice of the Russian tax authorities may not always be in accordance with the law. The Russian tax authorities do not always apply the law evenly to all taxpayers, sometimes being motivated by political reasons. It is possible that the current interpretation of the law or understanding of practice may change or, indeed, that the law may be changed with retrospective effect.

Taxes payable by Russian companies are substantial and include, among others:

- income taxes;
- value added tax ("VAT");
- excise taxes and import duties;
- mineral extraction tax;
- unified social tax;
- property tax and other taxes.

The Russian tax environment has historically been complicated by the fact that various authorities often issued contradictory pieces of tax legislation. This uncertainty potentially exposes the Company to the risk of significant fines, penalties and enforcement measures and could result in a greater than expected tax burden.

Because of the political changes which have occurred in the Russian Federation over the past several years, there have recently been significant changes to the Russian taxation system. Global tax reforms in the Russian Federation commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (the "Tax Code"), which sets general taxation guidelines. Since then, the Russian Federation has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT, unified social tax and personal income tax, which came into force on 1 January 2001; the profits tax and mineral extraction tax chapters, which came into force on 1 January 2002; and the corporate property chapter of the Tax Code, which came into the force on 1 January 2004. Although these tax reforms have been completed to a large extent, some significant changes may still be introduced to the Russian tax law. For example, the Federal law No. 137-FZ dated 27 July 2006 introduced significant amendments to the Tax Code of the Russian Federation regarding the Russian tax administration system, which became effective from 1 January 2007.

In addition, the Company is subject to periodic tax inspections that may result in tax assessments and additional amounts owed by the Company for prior tax periods. Russia's federal and local tax collection system increases the likelihood that Russia will impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the Company's business. In some instances, even though unconstitutional, Russian tax authorities have applied certain taxes retroactively, issued tax claims for periods for which the statute of limitations has expired and reviewed the same tax period multiple times. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that the tax payer has obstructed or hindered a tax inspection. Because none of the relevant terms is defined, the tax authorities may have broad discretion to argue that a taxpayer has "obstructed or hindered" an inspection and ultimately seek penalties beyond the three-year term. In addition to the Company's substantial tax burden, these conditions complicate the Company's tax planning and related business decisions. For example, some tax laws are unclear with respect to the deductibility of certain expenses and recoverability of VAT and, at times, the Company has taken positions that it considers to be in compliance with current law, but have been challenged by the Russian tax authorities. The Company may also face extensive delays in receiving VAT reimbursements in connection with its capital and operating expenses. As at 30 September 2006 and 31 December 2005, the Company's total VAT receivable was $50.1 million and $43.5 million, respectively, which represented 7.5% and 8.5%, respectively, of the Company's total assets. See "Operating and Financial Review—Significant Factors Affecting the Company's Results of Operations—Taxation—Recovery of VAT". Uncertainty related to Russian tax laws exposes the Company to significant fines and penalties and to enforcement measures despite the Company's best efforts at compliance, and could result in a greater than expected tax burden. Moreover, court decisions in one jurisdiction of Russia may have little, if any, precedential effect in other jurisdictions, which could lead to multiple judgements against a company.

Moreover, financial statements of Russian companies are not consolidated for tax purposes under Russian law. As a result, each entity in the Group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the Group, which may result in higher taxes for the Group than if taxes were assessed on a consolidated basis. In addition, intercompany dividends are subject to a withholding tax of 9%, if being distributed to Russian residents, and 15%, if being distributed foreign residents. If the receiving company itself pays a dividend, it may offset the withholding against its own withholding liability of the onward dividend although not against any withholding made on a distribution to a foreign resident. These tax requirements impose additional tax burdens and costs on the Company's operations, including management resources.

It is likely that Russian tax legislation will become more sophisticated in the future. The introduction of new tax provisions may affect the overall tax efficiency of the Group and may result in significant additional taxes becoming payable. Additional tax exposure could materially adversely affect the Company's business, prospects, results of operations and financial condition. In addition, recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Russian transfer pricing rules may allow tax authorities to challenge some of the Company's transactions.

Russian transfer pricing rules effective since 1999 give Russian tax authorities the right to control prices, make transfer pricing adjustments and impose tax liabilities with respect to transactions between related entities and certain other types of transactions between unrelated entities, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates from the market price by more than 20%. Special transfer pricing rules have been developed for transactions involving securities and derivative instruments. The transfer pricing rules are broad in scope, vaguely drafted and leave wide scope for interpretation by Russian tax authorities and arbitration courts, and can be used in politically motivated investigations and prosecutions.

The Group has conducted and occasionally conducts inter-company transactions and transactions with related parties at terms which may be considered off-market by Russian tax authorities. In addition, the Group entered into forward sales of silver and gold for the delivery of future production at fixed prices with Nomos. These fixed prices may have deviated from the market price by more than 20% at the time of certain deliveries due to market price fluctuations. No assurance can be given that the tax authorities will not attempt to challenge such transactions in the future or propose price adjustments. If, due to uncertainties in the interpretation of the Russian transfer pricing rules, the price adjustments are upheld by Russian courts and become effective, the Company's business, prospects, results of operations or financial condition could be materially affected. In addition, the Company could face significant losses associated with the asserted amount of underpaid tax and related interest and penalties. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. It is also possible that Russian transfer pricing rules may be changed in the future, in particular, for transactions involving securities.

Shareholder rights to sell their shares to the Company may significantly increase its costs.

Russian law provides that shareholders that vote against or do not participate in voting on certain matters have the right to sell their shares to the Company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to the Company's reorganisation;
- the approval by shareholders of a transaction involving property worth more than 50% of the gross book value of the Company's assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of the Company's charter in a manner that limits shareholder rights.

The Company's obligation to purchase shares in these circumstances, which is limited to 10% of its net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

Corporate governance standards in Russia are not of the same standard as those in Western Europe and the U.S., and there is only limited protection of minority shareholders in Russia.

Corporate governance standards in Russia are not of the same standard as corporate governance standards in Western European countries or the United States and may provide less protection for investors. In particular, corporate governance practices in Russia have suffered from lack of transparency and information disclosure, both to the public and to shareholders; lack of independence of directors; and insufficient regulatory oversight and protection of shareholders' rights. Corporate governance standards for many Russian Companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices.

In general, minority shareholders protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. See "—Risks Relating to the Russian Federation—Shareholder rights to sell their shares to the Company may significantly increase its costs". Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. Some companies have conducted shareholder meetings in an irregular manner, shareholder resolutions have not always been respected by management and shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

In addition, the supermajority shareholder approval requirement is satisfied by a vote of 75% of all voting shares that are present at a shareholders' meeting. As a result, a controlling shareholder owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where a controlling shareholder effectively has 75% or more of the voting power at a shareholders' meeting, that controlling shareholder is in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. Any such actions by the Company's controlling shareholders or management could materially and adversely affect the value of the Ordinary Shares and GDRs.

While the Joint Stock Companies Law provides that shareholders owning not less than 1% of the Company's stock may bring an action for damages suffered by the Company, Russian courts to date have not had much experience with respect to such lawsuits. In addition, Russian law does not contemplate class action litigations. Accordingly, the ability of the holders of GDRs and Ordinary Shares to pursue legal redress against the Company and the Selling Shareholder may be limited.

Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its subsidiaries.

The Russian Civil Code, the Joint Stock Companies Law and the Law on Limited Liability Companies generally provide that shareholders in a Russian joint stock company or participants in a limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (and "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). See "Description of Share Capital and Applicable Russian Legislation—Description of Share Capital and Certain Rights of Shareholders". Accordingly, in the Company's position as an effective parent, it could be liable in some cases for the debts of its effective subsidiaries in Russia.

Arbitrary government action could have an adverse effect on the Company's business and reduce the value of the GDRs or the Ordinary Shares.

Government authorities have a high degree of discretion in the Russian Federation and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. Moreover, the Government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts and effectively expropriate or nationalise private enterprises. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances or registrations or to void transactions, seemingly for political purposes. In addition, in 2003 and 2004, the Ministry for Taxes and Levies aggressively brought tax evasion claims regarding certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. For example, the Russian Federal Tax Service determined that Yukos owed in excess of U.S.$28 billion in back taxes and related penalties, and in December 2004, Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations, and Yukos was declared bankrupt in July 2006. The press has also reported from time to time significant claims for back taxes and related penalties against other companies. Selective or arbitrary government action, if directed at the Company, could have a material adverse effect on the Company's business, prospects, results of operations or financial condition. Lack of developed corporate and securities laws and regulations in Russia may limit the Company's ability to attract future investment. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, the Company's competitors may receive preferential treatment from the Government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at the Company's operations, could have a material adverse effect on the Company's business, prospects, results of operations, financial condition or on the price of the GDRs or the Ordinary Shares.

The judiciary's lack of independence and experience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent the Company or holders of the GDRs or the Ordinary Shares from obtaining effective redress in a court proceeding, which could have an adverse effect on the Company's business or the value of the GDRs or the Ordinary Shares.

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is less than complete. The court system is often understaffed and under-funded. Judges are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow and court orders are not always enforced or followed by law enforcement agencies. Additionally, the press has often reported that court claims and governmental persecutions are often used in furtherance of political aims, which the courts themselves support. The Company may be subject to such claims and may not be able to receive a fair hearing. These uncertainties make judicial decisions in Russia difficult to predict and effective redress uncertain and could have a material adverse effect on the Company's business, prospects, results of operations or financial condition or on the price of the GDRs or the Ordinary Shares.

A Russian legal entity may be liquidated on the basis of formal non-compliance with certain requirements of Russian law.

Russian law provides for certain requirements that should be complied with while establishing and reorganising a Russian company or during its operation. Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of formal non-compliance with certain requirements during the formation of such entity or during its operation. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of Russia that held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and instead consideration should be given to whether the liquidation would be an adequate sanction of such violations. Although some of the Company's subsidiaries might have failed from time to time to comply fully with all the applicable legal requirements (for example, untimely capital contributions or certain matters connected with the registration of share issues in the course of foundation or having insufficient net assets), the Company believes that none of its subsidiaries should be subject to liquidation on such grounds because none of the possible violations were significant, have caused any damage to any person or have had any other negative consequences. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. Therefore, investors should not rely on the Company's interpretations of Russian law. If a Russian court or a governmental authority takes a position unfavourable to the Company, it may need to restructure its operations, which could have a material adverse effect on the Company's business, prospects, results of operations, financial condition or on the price of the GDRs or the Ordinary Shares.

In the event that the title to any company acquired by the Company is successfully challenged, the Company may lose its ownership interest in that company or its assets.

The Company's business has grown through the acquisition of companies incorporated and operating in the Russian Federation. Such acquisitions were subject to certain formal procedures (e.g., obtaining prior approval or subsequent notification of the FAS or its predecessor agencies, obtaining corporate approvals of both the Company and the seller, compliance with shareholders' preemptive rights, etc.). While the Company believes that it has complied with applicable legislation and regulations with respect to the acquisitions of its assets, if any of such acquisitions are challenged as having been improperly conducted and the Company is unable successfully to defend itself, the Company may lose its ownership interests in such acquired companies, which could materially adversely affect the Company's business, prospects, results of operations or financial condition or on the price of the GDRs or the Ordinary Shares.

Russian legislation may not adequately protect against expropriation and nationalisation.

The Russian Government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. In the event that such property is expropriated or nationalised, legislation calls for fair compensation. However, there is no assurance that such protections would be enforced. Expropriation or nationalisation of the Company's business could have a material adverse effect on business, prospects, results of operations, financial condition or on the price of the GDRs or the Ordinary Shares.

Incomplete, unreliable or inaccurate official data and statistics could create uncertainty.

The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than that of some of the more economically developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in such more economically developed countries. Additionally, the Company relies on and refers to information and statistics from various third party sources and its own internal estimates. For example, substantially all the information contained in this Prospectus concerning the Company's competitors has been derived from publicly available information, including press releases. Management believes that these sources and estimates are reliable, but has not independently verified them. However, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty. Any discussion of matters related to Russia in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Deterioration of Russia's relations with other countries of the former Soviet Union could disrupt normal business activity.

Since Mr. Putin became President in 1999, Russia has attempted to reassert its geopolitical interests in what had previously been Republics of the USSR. On several occasions, this has resulted in the deterioration of Russia's relations with such countries, including a comprehensive economic embargo on Georgia in 2006 and temporary suspension of oil transshipments through Belarus in 2007. The Russian Law "On Special Economic Measures," adopted in the fall of 2006, grants the President of Russia, acting only upon recommendation of the Russian Security Counsel, authority to both (i) impose restrictions or prohibit dealings with foreign states and/or foreign citizens and (ii) impose obligations to perform specific activities in furtherance of the adopted economic measures. If Russia were to impose a similar embargo or adopt any of the restrictive economic measures contemplated by the Law "On Special Economic Measures" with respect to its neighbouring countries, or if these countries were to impose similar measures on Russia, the Company's business, prospectus, results of operations or financial condition could be materially and adversely affected.

Social instability could lead to labour and social unrest, increased support for renewed centralised authority, nationalism or violence.

The failure of the Government to adequately address social problems has led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority; increased nationalism, with support for re-nationalisation of property or expropriation of or restrictions on foreign involvement in the economy of Russia; and increased violence. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia and could materially adversely affect the Company's business, prospects, results of operations, financial condition or the price of the GDRs or the Ordinary Shares.

Risks Relating to the Offering, Ordinary Shares and GDRs

The Offering may not result in an active or liquid trading market for the Ordinary Shares or the GDRs, and their price may be highly volatile.

Before this Offering, there has been no prior market for the GDRs or the Ordinary Shares. Although application has been made to the UKLA for the approval of this Prospectus and up to 315,000,000 GDRs (of which it is expected that up to 66,973,000 will be admitted on or about the GDR Closing Date) to be admitted to the Official List and to the London Stock Exchange to admit such GDRs to trading on its regulated market for listed securities, and the Ordinary Shares have been listed on RTS, an active public market for the Ordinary Shares and GDRs may not develop or be sustained after the Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the GDRs or Ordinary Shares does not develop, the price of the GDRs or Ordinary Shares may become more volatile, and it may be difficult to complete a buy or sell order for such GDRs or Ordinary Shares. Furthermore, the Company's Ordinary Shares may cease to be listed on the RTS in the future.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. However, there may only be a limited public free float of the Ordinary Shares in the future. Moreover, the Share Closing Date is scheduled to occur after the Closing Date, and under certain circumstances the Managers may terminate the Underwriting Agreement (as defined under "Subscription and Sale") subsequent to the GDR Closing Date but prior to the Ordinary Share Closing Date, as a result of which there may be very little or no public free float for the Ordinary Shares. See "Subscription and Sale".

The trading prices of the Ordinary Shares and GDRs may be subject to wide fluctuations in response to many factors, including:

- variations in the Company's operating results and those of other gold and silver producers;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by the Company or its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within the Company's business sector or in Russia; or
- extreme price and volume fluctuations on Russian or other emerging market stock exchanges.

In addition, the market price of the Ordinary Shares or the GDRs may decline below the Offer Price, which will be determined by the results of the book building exercise being conducted by the Managers.

Future sales of Ordinary Shares or GDRs may affect the market price of the Ordinary Shares and the GDRs.

Sales, or the possibility of sales, by the Company or its controlling shareholder of a substantial number of GDRs or its ordinary shares in the public markets following the Offering could have an adverse effect on the trading prices of the Ordinary Shares or the GDRs or could affect the Company's ability to obtain further capital through an offering of equity securities. Subsequent equity offerings may also reduce the percentage ownership of shares by the Company's existing shareholders and of investors in the Offering. Moreover, newly issued shares of the Company may have rights, preferences or privileges senior to those of the Ordinary Shares of the Company.

The Company may issue additional ordinary shares or other securities convertible or exchangeable into ordinary shares. Any such issue could result in an effective dilution for investors purchasing the Ordinary Shares and the GDRs in the Offering and/or adversely affect the market price of the Ordinary Shares and the GDRs.

The interests of Nafta Moskva, the major shareholder of the Company, could conflict with those of the other holders of the Company's Ordinary Shares or GDRs.

Following the Offering, assuming the sale by the Selling Shareholder of 38,000,000 Ordinary Shares in the Offering and no exercise of the Over-Allotment Option, approximately 75.2% of the Company's issued and outstanding shares (or 72.1% if the Over-Allotment Option is exercised in full) will be owned by Nafta Moskva. As a result of Nafta Moskva's interests in the Company's shares, Nafta Moskva has the ability to exert significant influence over certain actions requiring shareholder approval, including increasing or decreasing the Company's authorised share capital (in cases other than decisions on share capital increases that are adopted by the Company's board of directors), the election of directors, declaration of dividends, the appointment of management and other policy decisions. Nafta Moskva and the Company's management may have conflicting goals or objectives for the Company, which may restrict or undermine the ability of the Company's management to implement the Company's business or strategies.

In addition, Nafta Moskva may engage in business activities that compete with the Company. The interests of Nafta Moskva could at times conflict with the interests of other holders of the Company's Ordinary Shares and GDRs, and any such conflict of interest could adversely affect the Company's business, prospects, results of operations or financial condition and therefore the value of an investment in the Ordinary Shares and GDRs could be adversely affected.

Speculation and allegations relating to our Selling Shareholder, including allegations of involvement in the U.N. "Oil-for-Food" programme in Iraq by a company previously owned by our principal shareholder, could materially adversely affect our shareholder's or the Company's reputation and, hence, the price of the Ordinary Shares or the GDRs.

Reports published by an independent committee appointed by the United Nations and by the U.S. Senate Committee on Homeland Security and Governmental Affairs alleged that J.S.C. Nafta Moscow was implicated in alleged manipulation of the U.N. Oil-for-Food programme in Iraq in 1998 and 1999, including dealings with persons who have been federally indicted and who may shortly come to trial in the United States for violations of the U.S. sanctions laws. Upon acquiring control of J.S.C. Nafta Moscow at the end of 1999, Mr. Kerimov terminated that company's involvement in the Oil-for-Food programme and subsequently caused it to be liquidated in 2004.

Nonetheless, in December 2006, the FSA received correspondence alleging that Mr. Kerimov, or entities controlled by him, illegally obtained funds from the Iraqi regime under Saddam Hussein. After having investigated this matter, including having made inquiry of its shareholder, the Company has not received any information that leads it to believe that such allegations are true. J.S.C. Nafta Moscow was entirely separate from, and had no legal relationship to, Nafta Moskva (Cyprus) Limited, our principal direct shareholder. However, similar allegations, publicity or claims involving these or analogous matters, which include references to Nafta Moskva (Cyprus) Limited, Mr. Kerimov, the Company or their affiliates, whether or not accurate or successful, could materially and adversely affect the Company's reputation and the price of the Ordinary Shares or the GDRs.

Following the Offering, you may not be able to deposit Ordinary Shares in the GDR programme to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares and GDRs offered in this Offering.

Whenever the Depositary believes that it exceeds, or would upon accepting additional Ordinary Shares for deposit, exceed any threshold or limit established, by any applicable law, directive, regulation or permit, or satisfies, or would upon accepting additional Ordinary Shares for deposit, satisfy any condition for making any filing, application, notification or registration or obtaining any approval, licence or permit under any applicable law, directive or regulation, or taking any other action, it may, under certain circumstances, (i) close its books to deposits of additional Ordinary Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, subject to prior consultation with the Company to the extent reasonably practicable, causing pro rata cancellation of GDRs and withdrawal of underlying Ordinary Shares from the depositary receipt programme to the extent necessary or desirable to so comply. See "Terms and Conditions of the Global Depositary Receipts—General Restrictions—Restrictions on Deposits".

The Russian securities regulatory authorities impose certain restrictions on the placement and circulation of the securities of Russian companies outside Russia in the form of GDRs or otherwise. Currently, no more than 35% of any given class of a Russian company's shares may be circulated abroad through depositary receipt programmes, whether sponsored or unsponsored. The Company has received a permit from the Russian securities regulatory authorities for up to approximately 25% of its Ordinary Shares to be circulated abroad in the form of GDRs. Therefore, upon completion of the Offering and the capital increase and assuming exercise of the Over-Allotment option in full, the Company's GDR programme would have a remaining approved capacity of approximately 1% of the Company's outstanding Ordinary Shares, assuming that all of the Ordinary Shares offered in the Offering in the form of GDRs, including those subject to the Over-Allotment Option, are ultimately held in the form of GDRs. There can be no assurance that the Company will be able to obtain approval for a deposit of a greater number of Ordinary Shares in the GDR programme than it currently has approval for, and any remaining capacity may be used by the Company's other existing shareholders. Therefore, it may not be possible to deposit shares into the Company's GDR programme in order to receive GDRs.

Moreover, under Russian law, the Selling Shareholder offering shares for placement outside Russia must offer to place these shares on a Russian stock exchange or via a Russian broker. The number of shares offered for placement outside Russia (both the new shares offered by the Company and the shares offered by the Selling Shareholder) may not be more than 70% of the total number of shares offered in the

Offering (whether offered as Ordinary Shares or in the form of GDRs). Accordingly, the size of the Offering could be effectively limited to the equivalent of 70% of the total number of the Ordinary Shares offered by the Company and the Selling Shareholder in the form of Ordinary Shares and GDRs.

Under Russian corporate law, a person that has acquired more than 30, 50 or 75% of an open stock company's ordinary shares and voting preferred shares, including the shares already owned by such person and its affiliates, will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30, or as the case may be, 50 or 75% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). See "Description of Share Capital and Applicable Russian Legislation—Description of Share Capital and Certain Rights of Shareholders—Share Acquisitions Above Certain Thresholds and Anti-Takeover Protection". Under Russian law, the Depositary may be considered the owner of the Ordinary Shares underlying the GDRs, and as such may be subject to the mandatory public tender offer rules described in the above paragraph. See "—Risks Relating to the Offering, Ordinary Shares and GDRs—Because the Depositary may be considered the owner of the Ordinary Shares underlying the GDRs under Russian law, these Ordinary Shares may be arrested or seized in legal proceedings in Russia against the Depositary". In addition, in a letter to the Depositary in July 2006, the Russian securities regulatory authority took the general position that the mandatory public tender offer rules do apply to a depositary bank. Accordingly, at present, the mandatory tender offer rules result in a de facto cap on the Company's GDR programme of 30% of its Ordinary Share.

In addition, under Russian anti-monopoly legislation, transactions involving companies the combined value of whose assets under Russian accounting standards exceed a certain threshold or companies registered as having more than a 35% share of a certain commodity market, which result in a shareholder (or a group of affiliated shareholders) holding more than 25, 50 or 75% of the voting capital stock of such company must be approved in advance by the Russian Federal Anti-Monopoly Service (the "FAS"). The Depositary has received general interpretive guidance from FAS (albeit issued under analogous provisions of the previous version of the anti-monopoly law) that it need not obtain such FAS approval in connection with depositary receipt programmes such as the Company's GDR programme. If, however, FAS were to rescind or disregard its above mentioned interpretation, the Company's GDR programme would be subject to a de facto cap of 25% of its Ordinary Shares, unless the Depositary could obtain FAS approval for a higher percentage.

Any additional issuance of the Company's Ordinary Shares (such as the issuance of the Ordinary Shares by the Company in the Offering) is required to be registered with the FSFM, and is assigned a provisional state registration number, containing a suffix distinguishing it from the previous issuance of Ordinary Shares of the same class. Following completion of the issuance, the provisional suffix is canceled. Under Russian law, the FSFM must cancel the suffix upon the expiration of three months following the registration of the placement report for the issuance (or, if applicable, upon the expiration of three months following the filing of a notice of the results of the issuance), but in practice such cancellation may be delayed beyond the prescribed term. The FSFM permission for the Company's GDR programme expressly permits the deposit of Ordinary Shares having specific registration numbers, namely, 1-02-00412-D, the Company's general share registration number, and 1-02-00412-D-001D, the provisional number for the Ordinary Shares additionally issued in connection with the Offering. Ordinary Shares having a different registration number, whether currently in issue or issued in the future, may not be deposited in the Company's GDR programme. As a result, the Depositary may be entitled to refuse a deposit of Ordinary Shares having a different registration number than those set out in the FSFM permission for the GDR programme.

Therefore, it may not be possible to deposit shares into the Company's GDR programme in order to receive GDRs, and under certain circumstances you may be required to withdraw shares from the GDR programme, which may in either case affect the liquidity and the value of your investment.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that the authorities will not reduce the permitted percentage of trading in, or offerings of, GDRs or impose other restrictions. Such new or extended regulations could have a material adverse effect on the Company's business, prospects, results of operations or financial condition and the value of the Ordinary Shares or GDRs.

De-listing of the Ordinary Shares from the Russian stock exchanges on which they are listed may have a material adverse effect on the Company's GDR programme.

The Ordinary Shares were included in the "I" list of RTS and will be admitted to trading on MICEX on or about 9 February 2007. A condition of obtaining an "I" listing is that the Company must, within a certain period from the date on which the "I" listing is granted, be converted into a listing in the "A" or "B" categories, which would be subject to compliance with corporate governance and financial (including minimum trading volume) requirements. In the event that the Company is unable to timely obtain a listing in the "A" or "B" categories, it will be subject to de-listing from the Russian stock exchanges on which it is currently listed.

Although a Russian stock exchange listing is a condition to the issuance by FSFM of a permit for GDRs, Russian securities law and regulations are silent as to whether a de-listing constitutes grounds for revocation of the FSFM permit for the GDRs and the effect of any such revocation on the GDR programme and on GDRs then issued and outstanding. This gap in the Russian securities regulatory regime creates uncertainty as to whether de-listing may have such consequences. Revocation of the Company's permit for its GDR programme would have a material adverse effect on the liquidity and trading price of the GDRs and Ordinary Shares.

Because the Depositary may be considered the owner of the Ordinary Shares underlying the GDRs under Russian law, these Ordinary Shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Many jurisdictions, such as the United Kingdom and the United States, recognise a distinction between legal owners of securities, such as the Depositary, and the beneficial owners of securities, such as the GDR holders. In these jurisdictions, the Ordinary Shares held by the Depositary on behalf of the GDR holders would not be subject to seizure in connection with legal proceedings against the Depositary that are unconnected with the Ordinary Shares.

Russian law however, may not recognise a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying global depositary receipts and, accordingly, may not recognise GDR holders' beneficial ownership interest therein.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying shares as the assets of the depositary, thus making them open to attachment. In a past lawsuit against a depositary bank other than the Depositary, a claimant threatened to seek attachment of Russian companies' shares represented by depositary receipts issued by that depositary bank. If a Russian court were to order the seizure or attachment of the Depositary's assets in Russia, GDR holders could lose all of their rights to, and all of the money they invested in, the Ordinary Shares underlying the GDRs.

The Deposit Agreements for the GDRs and relevant requirements of Russian law limit the voting rights of holders of GDRs with respect to the Ordinary Shares represented by GDRs.

The GDR holders will not have any direct voting rights with respect to the Ordinary Shares represented by the GDRs. The GDR holders will be able to exercise their voting rights with respect to the Ordinary Shares represented by GDRs only in accordance with the provisions of the Deposit Agreements governing such GDRs and relevant requirements of Russian law. However, there are practical limitations upon the GDR holders' ability to exercise their voting rights due to the additional procedural steps involved in communicating with such holders. For example, the Joint Stock Companies Law and the Company's charter requires the Company to notify shareholders not less than 20, 30 or 70 days prior to the date of a general shareholders meeting (dependent on the type of the general shareholders' meeting and its agenda). See "Description of Share Capital and Applicable Russian Legislation—General Shareholders' Meeting—Notice and Participation". The Company's ordinary shareholders will receive notice directly from the Company and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreements, the Company will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by the Company in writing in a timely manner and at the Company's expense, and provided there are no U.S., English or Russian legal prohibitions (including, without limitation, the rules of the London Stock Exchange or the rules of any

Russian stock exchange on which the Ordinary Shares are listed or admitted to trading), to send to the GDR holders notice of such meeting, the agenda therefore (if and as received by the Depositary from the Company), copies of voting materials (if and as received by the Depositary from the Company) and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, the GDR holders must then instruct the Depositary how to vote the Ordinary Shares represented by their respective GDRs. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Ordinary Shares, and there can be no assurance that the GDR holders will receive voting materials in time to enable them to return their voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Ordinary Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the Ordinary Shares in the same manner. The GDR holders may thus have significant difficulty in exercising voting rights with respect to the ordinary shares underlying their GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, did not participate in the voting or has not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts—Voting Rights".

While, as a practical matter in accordance with the procedures established by the Depositary, holders of GDRs might be able to instruct the Depositary to introduce proposals for the agenda of shareholders' meetings, request that a shareholders' meeting be called, vote shares on a cumulative basis, nominate candidates for the Company's Board of Directors or otherwise exercise the rights of minority ownership arising under the Joint Stock Companies Law, there is no strict legal basis for such procedures of the Depositary, and such procedures remain untested by the Russian courts. If such procedures are challenged successfully, then holders of GDRs who wish to take such actions will need to timely request that their GDRs be cancelled and take delivery of the Ordinary Shares and thus become the owner of the Ordinary Shares on the Company's share register.

Holders of GDRs may be unable to repatriate distributions made on the Ordinary Shares.

The Company intends to pay dividends on its Ordinary Shares in roubles, and Russian law currently permits such rouble funds to be converted into U.S. dollars by the Depositary without restriction. The ability to convert roubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of roubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency future markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside of Russia and the CIS and no liquid market in which to hedge rouble and rouble-denominated investments. See "—Risks Relating to the Russian Federation—Restrictive currency regulations may adversely affect the Company's business and financial condition".

Non-Resident Holders of GDRs may not be able to benefit from double tax treaties with respect to any dividends paid by the Company.

Under Russian law, dividends paid to a Non-Resident Holder of the Ordinary Shares or the GDRs (as defined under "Taxation—Russian Tax Considerations") of the Ordinary Shares or the GDRs will generally be subject to Russian withholding income tax at a rate of 15% for legal entities and organisations and at a rate of 30% for individuals. The withholding tax may, however, be reduced under the provisions of a relevant double tax treaty between Russia and the country in which the holder of the Ordinary Shares or the GDRs is resident for tax purposes. In particular, this tax may be reduced to 5% or 10% for legal entities and organisations and to 10% for individuals under the United States-Russia double tax treaty, and to 10% under the United Kingdom-Russia double tax treaty.

However, the Russian tax rules applicable to GDR holders are characterised by significant uncertainties and, until recently, by the absence of interpretive guidance. In 2005 and 2006, the Russian Ministry of Finance expressed its opinion in private rulings that GDR holders should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residencies of the GDR holders are duly confirmed. However, the Russian tax authorities have not provided official guidance of general applicability addressing how a GDR holder should demonstrate its beneficial ownership in the underlying shares. In the absence of any specific provisions in the tax legislation with respect to the concepts of beneficial ownership, the taxation of income of beneficial owners or the treatment of GDRs, it is unclear how the tax authorities and courts will ultimately treat the GDR holders in this regard.

Unless the Company receives adequate clarification from the Russian tax authorities that it is permitted under Russian law to withhold Russian withholding tax in respect of dividends it pays to the Depositary (which is the legal owner of the underlying Ordinary Shares under Russian law) at a lower rate than the domestic rate applicable to such payments, the Company intends to withhold Russian tax at the standard domestic non-resident rates of 15% for legal entities or organisations and 30% for individuals irrespective of the provisions of any applicable double tax treaty, when paying dividends via the Depositary to any of the Non-Resident Holders, including U.S. and U.K. holders. Although Non-Resident Holders of GDRs may apply for a refund of a portion of the Russian tax withheld under the applicable double tax treaty, there is no assurance that such refund will be obtained. See "Taxation—Russian Tax Considerations" for further details.

Resident Holders (Individuals) of the GDRs may be subject to increased effective rates of tax on dividends due to the lack of clarity in the Russian tax law in respect to beneficial ownership.

Russian tax law is silent as to whether the Depositary or the Holders must be viewed by the payor of dividends as beneficial owners of shares. Private clarifications of the Ministry of Finance suggest that the Holders are the beneficial owners; however, these clarifications are not a statement of law and there can be no assurance that this position will be maintained in the future. If the Depositary is viewed as the beneficial owner of the dividends, the Company may be obligated to withhold income tax at a rate of 15% from dividend payments on Ordinary Shares represented by GDRs. By virtue of receiving dividend payments from the Depositary rather than from the Company, Resident Holders (individuals) may be required to report these dividends in their tax returns as dividends from foreign sources, and pay additional tax on the declared amount at a rate of 9%, and would likely be unable to reclaim the tax initially withheld by the Company.

Capital gains from the sale of Ordinary Shares or GDRs by Non-Resident Holders may be subject to Russian withholding income tax.

Under Russian tax legislation, gains arising from the disposition of Ordinary Shares or GDRs by Non-Resident Holders that are legal entities or organisations may be subject to Russian profits tax or withholding income tax if immovable property located in Russia constitutes more than 50% of the assets of such entity or organisation. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered presence in Russia. Gains arising from the disposition of the foregoing types of securities listed on foreign stock exchanges by foreign holders who are legal entities or organisations are not subject to taxation in Russia.

If more than 50% of the Company's assets were found to consist of immovable property located in Russia, capital gains derived by Non-Resident Holders that are legal entities or organisations arising from the disposition of Ordinary Shares or GDRs that are not listed on a foreign stock exchange may be subject to withholding tax imposed at the rate of 24% or 20%, depending on the applicable tax basis.

Gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs outside of Russia by U.S. or U.K. holders who are individuals not resident in Russia for tax purposes should not be considered Russian source income and therefore should not be taxable in Russia. However, in the absence of a clear definition of what constitutes income from sources within Russia in the case of the sale of securities, there is a risk that income from the disposal of Russian securities (Ordinary Shares) may be considered as received from a Russian source.

Gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs in Russia by holders who are individuals not resident in Russia for tax purposes will be subject to tax either at the source in Russia or based on a tax return, which the holder may be required to submit to the Russian tax authorities. See "Taxation—Russian Tax Considerations".

A number of the existing double tax treaties concluded by the Russian Federation provide for exemption of the above capital gains from Russian taxation. However, the procedure of advance exemption under applicable treaty provisions is relatively undeveloped in the case of non-resident individuals, and obtaining subsequent tax refunds may be time consuming and may involve considerable practical difficulties.

Holders of the Ordinary Shares or the GDRs may have limited recourse against the Selling Shareholder, the Company and the Company's directors and executive officers because the Company generally conducts its operations outside the United States and the United Kingdom and the majority of the Company's directors and executive officers reside outside the United States and the United Kingdom.

The Selling Shareholder's and the Company's presence outside the United States and the United Kingdom may limit the legal recourse of holders of the Ordinary Shares and the GDRs against the Company. The Company is incorporated under the laws of the Russian Federation, and the Selling Shareholder is organised under the laws of Cyprus. The majority of the Company's directors and executive officers reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of the Selling Shareholder's assets, the Company's assets and the assets of the Company's directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, holders of the Ordinary Shares or the GDRs may not be able to effect service of process within the United States or the United Kingdom upon the Selling Shareholder, the Company or the Company's directors and executive officers or to enforce U.S. or U.K. court judgements obtained against the Selling Shareholder, the Company or the Company's directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for the holders of the Ordinary Shares or the GDRs to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

The Russian Federation is not a party to any multilateral or bilateral treaties with most Western jurisdictions (including the United States and the United Kingdom) providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters. Consequently, should a judgement be obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, the Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"), and the Deposit Agreements and the Deed Poll in respect of the GDRs contain provisions allowing for the arbitration of disputes. A foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation), but in practice, reliance upon international treaties and enforcement of arbitral awards in the Russian Federation may be difficult due to a number of factors, including the inexperience of Russian courts in international commercial transactions, political resistance to enforcement of awards against Russian companies in favour of foreign investors and Russian courts' inability to enforce such orders.

Holders of the GDRs may not be able to benefit from certain U.K. anti-takeover protections.

As the Company is not resident in the United Kingdom, the City Code on Takeovers and Mergers does not apply to it. As a result, a bid for, or creeping acquisition of control over, the Company's shares are presently unregulated. For a discussion of Russian anti-takeover protection see "Description of Share Capital and Applicable Russian Legislation—Description of Share Capital and Certain Rights of Shareholders—Share Acquisition Above Certain Thresholds and Anti-takeover Protection."

GDR holders cannot withdraw Ordinary Shares from the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs, nor can holders of Ordinary Shares deposit Ordinary Shares into the deposit facility, until the FSFM registers the Company's Placement Report, and a failure to register the Placement Report would result in the newly issued Ordinary Shares and the GDRs being cancelled and reliance by GDR holders on the Company and the Managers to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares.

Under Russian law, the issuance in the Offering of the newly issued Ordinary Shares is complete only when the FSFM registers the Placement Report. The FSFM may refuse to register the Placement Report if, among other things, the Company violated Russian law in the issuance process and a Russian court may also hold the placement invalid for such violations.

During the period between the GDR Closing Date and the registration of the Placement Report, the GDRs will be deemed to have been issued on a provisional basis, and GDR holders cannot withdraw the Ordinary Shares underlying any GDRs or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs, as they would otherwise be able to do. Also, following the GDR Closing Date, no additional Ordinary Shares will be accepted for deposit and no additional GDRs will be issued until the Depositary has been notified of the registration of the Placement Report. In the event that the Placement Report is not registered by the FSFM within 60 days after the GDR Closing Date (or such later date to which the Company agrees with the Managers), the Company will issue a press release and notify the Depositary and the London Stock Exchange. In the case of non-registration of the Placement Report, the Company will be required to deliver the proceeds that were initially deposited into its account on the GDR Closing Date (in Russian roubles, if required so by Russian law) without interest to the Depositary, in its capacity as the subscriber for the newly issued Ordinary Shares. The Company also has agreed in the Underwriting Agreement to pay such additional amounts (if any) as may be necessary to ensure that the U.S. dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the net U.S. dollar proceeds received by the Company from the sale of GDRs, except for the underwriting commissions related to the GDRs representing Ordinary Shares offered by the Company, which the Managers have agreed to deliver to the Depositary. In such event, the Depositary will cancel such number of GDRs as corresponds to the number of newly issued Ordinary Shares being cancelled, on a pro rata basis or on such other basis as it deems practicable at its sole discretion, and will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it had received, pro rata or on such other basis as it deems practicable in its sole discretion, to the then holders of the GDRs, subject to the terms of the Deposit Agreements relating to the GDRs. The amount per GDR ultimately returned to the then holders of GDRs may be less than the initial public offering price per GDR, may be subject to withholding taxes, and may be delayed or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring conversion of funds from or into roubles) and may be prevented if there is a change in such regulations or practices.

If the Placement Report is not registered and trading in respect of these GDRs on the London Stock Exchange is cancelled and the Depositary cancels such GDRs as described herein, the liquidity of the remaining GDRs will be significantly impaired. In addition, if the Placement Report is not registered, Ordinary Shares sold in the form of Ordinary Shares will be neither returned to, nor offered to be repurchased by, the Selling Shareholder. GDR holders will be taking the credit risk on the Company and the Managers for the delivery of funds in the event that the Placement Report is not registered.

BUSINESS

Overview

Polymetal is a market leader in the precious metals mining industry. In 2005, the Company was the world's fifth largest producer of silver, according to GFMS, and the largest primary silver producer globally, according to CRU. During the same year, the Company was also Russia's third largest producer of gold, according to the Association of Russian Gold Producers.

The Company was incorporated as Polymetal (Joint Stock Company Polymetal) in Saint Petersburg, Russia in 1998 by ICT Group. Today Polymetal operates through a vertically integrated organisational structure comprising production units, in-house engineering, stand-alone exploration and development projects and regional exploration subsidiaries.

At present, Polymetal actively mines at four sites: Dukat, Lunnoye, Khakanjinskoye ("Khakanja") and Vorontsovskoye ("Voro"), and the operating lives of its mines range from ten to twenty years based on current ore reserves. Dukat and Lunnoye, mines situated in the vicinity of Magadan in the Northeast of Russia, are primary silver mines with significant by-product gold production. Dukat is currently the world's second largest primary silver deposit by ore reserves and the third largest silver mine by production according to data published by the Silver Institute. Khakanja, located in the Khabarovsk Territory, and Voro, situated in the Sverdlovsk region, are both gold mines, with the former also producing significant quantities of silver.

The table below sets out the ore reserves and mineral resources at each of the Company's operating mines as at 30 September 2006. The table also includes information on ore reserves and mineral resources at Lunnoye's satellite deposit (Arylakh) and the satellite deposit of Khakanja (Yurievskoye), as well as the Company's most advanced development project (Albazino). This information has been extracted without material adjustment from "Appendix 1: Mineral Expert's Report".

	Reserves			Resources					
	Proved and Probable	Silver grade	Gold grade	Measured and Indicated	Silver grade	Gold grade	Inferred	Silver grade	Gold grade
	(in tonnes)(1)(2)	(g/t)	(g/t)	(in tonnes)(3)	(g/t)	(g/t)	(in tonnes)(4)	(g/t)	(g/t)
Operating Mines									
Dukat	18,606	542.6	1.1	19,634	632.2	1.3	16	437.5	1.0
Lunnoye & Arylakh	4,562	392.6	1.4	4,367	507.0	1.8	824	557.1	1.1
Khakanja &Yurievskoye	5,412	219.3	5.6	5,193	243.1	6.6	103	197.6	7.2
Voro	21,956	3.8	2.8	23,996	4.1	2.9	64	3.4	2.5
Advanced Development Project									
Albazino	—	—	—	4,300	—	5.6	2,305	—	4.4
Total	**50,537**	**260.3**	**2.3**	**57,490**	**278.1**	**2.8**	**3,312**	**146.9**	**3.6**

Notes:

(1) The estimates for ore reserves (Proved and Probable) presented above are based on the following economic cut-off grades (in situ): Dukat: 205-235 g/t Ag equivalent for open-pit and 290 g/t Ag equivalent for underground operations; Lunnoye: 270 g/t Ag equivalent for open-pit and 370-665 g/t Ag equivalent for underground operations; Khakanja: 3.0-3.3 g/t Au equivalent for open-pit and 4.6-4.7 g/t Au equivalent for underground operations; Voro: 0.9 g/t Au equivalent for oxidised ore, 1.2 g/t Au equivalent for primary ore; Arylakh: 330 g/t Ag equivalent for open-pit; Yurievskoye: 4.0 g/t Au equivalent.

(2) The Company's ore reserves are based on a gold price of U.S.$450/oz and a silver price of U.S.$7.00/oz; mineral resources are based on a gold price of U.S.$550/oz and a silver price of U.S.$8.00/oz. At 30 September 2006, the silver price was $11.55/oz and the gold price was $599.25/oz.

(3) Measured and indicated mineral resources are stated inclusive of ore reserves but with no allowance for ore loss or dilution. The estimates for Mineral Resources (Indicated and Inferred) presented above for Albazino are based on the economic cut-off grades (in situ) 2.0 g/t Au.

(4) Inferred mineral resources are stated exclusive of ore reserves and measured and indicated mineral resources.

In addition to its four operating mines, Polymetal has a significant pipeline of exploration and development projects that is expected to continue to fuel the Company's growth. In particular, the Company recently acquired the Albazino deposit in the Khabarovsk Territory to add to its current portfolio of twelve development and exploration projects. According to an audit of mineral resources conducted by Snowden, Albazino contained 769 thousand ounces of indicated gold mineral resources at 7 November

2006. Of its stand-alone exploration projects, the Company currently expects to bring two projects (Fevralskoye and Khakari) to feasibility study or pre-feasibility study by the end of 2008, and to upgrade mineralisation at two sites (Aprelkovsko-Peshkovskiy Unit ("APU") and Galkinskiy) to mineral resource status by the end of 2007. The Company also has three grass-roots regional exploration programmes around the Dukat, Khakanja and Voro mines aimed at extending the economic life and increasing the production capacity of the existing mines and finding deposits with stand-alone economic significance. The Company's exploration portfolio includes sixteen licences covering an area of approximately 3,100 sq. km.

Since its inception, the Company has designed, built and managed seven mines in Russia, three of which have since been divested. The Company has built up its mine portfolio by developing greenfield mines or by entirely rebuilding mines from inactive operations. Polymetal has achieved strong growth in recent years in its production levels for both silver and gold. Silver production has grown at a compound annual growth rate of 26.6% during the period from 2003 to 2005, and gold production has grown at a compound annual growth rate of 30.7% over the same period. The Company has achieved much of this growth by managing the transition of many of its operating mines from development projects into full scale, producing operations, leveraging the considerable in-house expertise of its employees.

The table below sets out Polymetal's production output, revenues, EBITDA and Adjusted EBITDA for the years ended 31 December 2005, 2004 and 2003 and for the nine months ended 30 September 2006 and 30 September 2005. See "Presentation of Financial and Other Information" and "Selected Consolidated Financial and Other Information".

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004 (Restated)	2003
Silver production (Moz)	13.0	13.9	18.9	17.3	11.8
Gold production (koz)	186	182	243	212	137
Total silver equivalent (Moz)	24.1	24.8	33.5	30.0	20.0
Revenues (U.S.$m)	223.5	172.5	239.0	204.5	92.4
EBITDA (U.S.$m)	108.9	56.7	78.3	93.5	50.6
Adjusted EBITDA (U.S.$m)	97.2	67.2	93.0	102.1	43.6

A cost curve produced by CRU ranked the Company's silver mines, Dukat and Lunnoye, on a co-product basis in the first half of world production of silver, with cash costs in the lowest half of silver producers worldwide in 2005. A cost curve produced by GFMS ranked the Company's gold mines on a by-product basis, with Khakanja in the first quartile, with cash costs lower than at least 75% of the world's gold producers, and Voro in the first half of world production of gold in 2005. See "Presentation of Financial and Other Information".

In September 2006, Polymetal entered into a preliminary agreement to establish a joint-venture with AngloGold Ashanti, an international gold producer with operations on four continents, in order to identify, explore and develop gold mining opportunities in Russia. Initially, the proposed strategic alliance will involve four sites located in the Krasnoyarsk and Chita regions: the Anenskiy and APU sites (contributed by Polymetal) and the Bogunay and Veduga sites (contributed by AngloGold Ashanti). Polymetal believes that this proposed alliance will benefit the Company both in terms of opportunities generated and access to best-in-class geological expertise and processing technology. In December 2006, the Company also formed a limited liability company with Mongolrostsvetmet to pursue a joint venture opportunity in Mongolia.

Key Strengths

Polymetal's key strengths can be summarised as follows:

Proven development and operational track record. Polymetal has a strong track record in developing both greenfield and brownfield sites to full production. The Company has designed and successfully developed seven mines since its inception in 1998, each one leveraging the Company's considerable in-house engineering and construction expertise. The Company believes that its in-house engineering expertise provides a significant competitive advantage and constitutes a knowledge base within the Company that is exceptional in the Russian mining industry. The Company's experience extends to successfully operating mines in remote areas with severe climatic conditions, as well as a proven ability to manage costs in an inflationary environment. The Company believes that AngloGold Ashanti's choice of Polymetal as its strategic partner reflects the Company's proven operational track record.

Leading precious metals producer. The Company is the world's largest primary silver producer. Additionally it is the third largest producer of gold in Russia according to the Association of Russian Gold Producers. The Company's production represents 54.2% of Russia's total silver production and 4.5% of the country's total gold production. The Company offers investors exposure to a well-balanced portfolio of gold and silver producing assets.

Exceptional mine portfolio with low cash costs. Polymetal's mine portfolio is characterised by relatively long reserve life and low cash costs. The Company operates mines of world class sophistication and scale, with mine lives of between ten and twenty years. Dukat is the third largest silver mine in the world by production and the second largest primary silver deposit in terms of ore reserves, and the Lunnoye mine is one of the world's 15 largest silver mines. According to cost curves produced by CRU and GFMS, the Company's cash cost of production for the nine months ended 30 September 2006 was in the lowest half of the cash cost curve for both silver, on a co-product basis, and gold, on a by-product basis.

Dedicated in-house geological and engineering expertise. Polymetal's wholly-owned in-house research and engineering subsidary, Polymetal Engineering, is one of the largest in-house engineering operations in the Russian mining industry, employing approximately 100 engineers. Polymetal Engineering adds value throughout all stages of mine development—from the exploration stage of a project to the production of silver and gold. The quality of Polymetal's in-house engineering is demonstrated by the significant number of projects that have been completed for outside clients, including the design and construction of complex mining projects for leading Russian mining companies producing diamonds, iron ore, tin and copper (such as Alrosa, Mikhailovsky GOK, Russian Copper Company and others). Polymetal invests significant resources in research and development activities and currently possesses 22 patents for inventions and proprietary processes. The Company believes that its research and engineering expertise provides it with a competitive advantage in the appraisal, acquisition and development of new exploration and development opportunities whilst also assisting in continually optimising the operation of its current mines.

Attractive growth opportunities from a significant pipeline of exploration and development projects. The Company has been successful in securing a series of key development projects (for example, Albazino and Khakari) and numerous exploration licences in the Chita, Khabarovsk, Krasnoyarsk, Magadan and Sverdlovsk regions of Russia. Furthermore, the Company believes that there are significant exploration opportunities in the areas surrounding Polymetal's four principal operating mines, and there remains significant potential to expand mineral resources in these areas as they become better developed and defined. In the Magadan region, for example, which the Company believes is the best region for silver exploration and production in Russia, Polymetal holds an exploration licence covering the majority of the Omsukchan silver belt. These areas were extensively mapped during the Soviet era, and, consequently, large amounts of geological data exist. The Company believes that, by leveraging this information and utilising its in-house expertise, it will be able to identify attractive development opportunities.

Experienced management team and highly skilled employees. Polymetal benefits from the deep and diverse experience of its management team in the metals and mining industries. The Company's management has demonstrated its ability to locate, acquire and develop precious metals mining properties. The management team's experience operating within the Russian federal and regional regulatory environment facilitates the Company's ability to procure additional mining licences, as well as access to acquisition opportunities. Polymetal also benefits from a highly qualified and motivated workforce with low employee turnover levels. The Company's leading market position allows it to attract and retain top specialists and to maintain the highest operational and technological standards. In addition, the Company enjoys a positive relationship with its workforce. The Company believes that its experienced management and skilled employees make Polymetal an exceptional local partner for the development and operation of mining projects in Russia, as demonstrated by its proposed strategic alliance with AngloGold Ashanti.

Strategy

Polymetal's strategy is to create shareholder value by continuing to consolidate its position as one of the leading producers of precious metals while maintaining an attractive profitability profile. The key elements of this strategy are as follows:

Maintain profitability while increasing production at existing operations. Polymetal plans to continue to increase production of silver and gold whilst maintaining a sound operating cash flow profile. In line with this strategy, the Company plans to expand the production capacity of its processing plants over the next three years and to launch targeted exploration campaigns around existing sites in order to increase ore reserves and maintain mine life as production increases. In order to achieve its strategy of maintaining profitability and operating cashflow, the Company intends to actively manage its operations such that its cash costs of production remain in the lowest half of the cash cost curve. In order to facilitate this, the Company intends to continue optimising performance at its existing mines through re-engineering, de-bottlenecking and technological innovation.

Acquire new exploration licences and development projects. Polymetal plans to primarily achieve growth organically; however, it will also evaluate acquisition opportunities as and when they arise. These opportunities will be assessed based on their stand-alone economic merits as well as on how they can achieve synergies with the Company's core assets. The Company's recent acquisition of the Albazino gold deposit in the Khabarovsk Territory is an example of this strategy. The Company intends to continue to seek similar opportunities by focusing on acreage around its currently active ore bodies, as well as on stand-alone projects that are at an advanced stage of development and on further regional campaigns in areas of high geological prospectivity. The Company's current exploration strategy targets are world class ore bodies capable of producing in excess of 5 million ounces of silver or 200 thousand ounces of gold per annum, with the potential for strong financial performance in the medium term and which are capable of being developed quickly.

Continue to commission new mines and develop exploration projects. Polymetal's aims to manage the complete cycle of its deposits' development, from the exploration phase to final production (including engineering, construction and operational activities). In the medium term, the Company currently plans to bring the recently acquired Albazino project into operation by 2010. In addition, the Company currently plans to be able to bring three to four exploration projects into the feasibility stage of the cycle over the next few years.

Maximise the benefits from the proposed strategic alliance with AngloGold Ashanti. Polymetal will seek to leverage its proposed strategic alliance with AngloGold Ashanti. In particular, Polymetal will work with AngloGold Ashanti to bring the Veduga deposit (which is expected to be acquired by AngloGold Ashanti and contributed to the strategic alliance) into operation as quickly as possible, and will work together to develop further world class projects. In addition, the Company expects to benefit from AngloGold Ashanti's position as a leading international gold producer in terms of gaining access to best practices, particularly with respect to geological expertise, processing technology and Western business techniques. See "—Strategic Alliance and Joint Venture", below.

Focus on development of the Company's human capital. A key component of the Company's strategy is the retention and further development of its human capital. The Company's ability to attract, retain and train to the requisite level a skilled and growing workforce is critical to its future success and growth ambitions. The Company focuses on recruiting talented newly qualified young geologists, mining engineers and processing engineers from regional universities through a partnership with technical universities in Irkutsk, Tomsk and Magnitogorsk. In 2006, the Company offered internship positions to approximately 200 students, and expects approximately 40% of these to return as full time employees upon graduation. The Company seeks to capitalise on and continue its successful recruitment efforts.

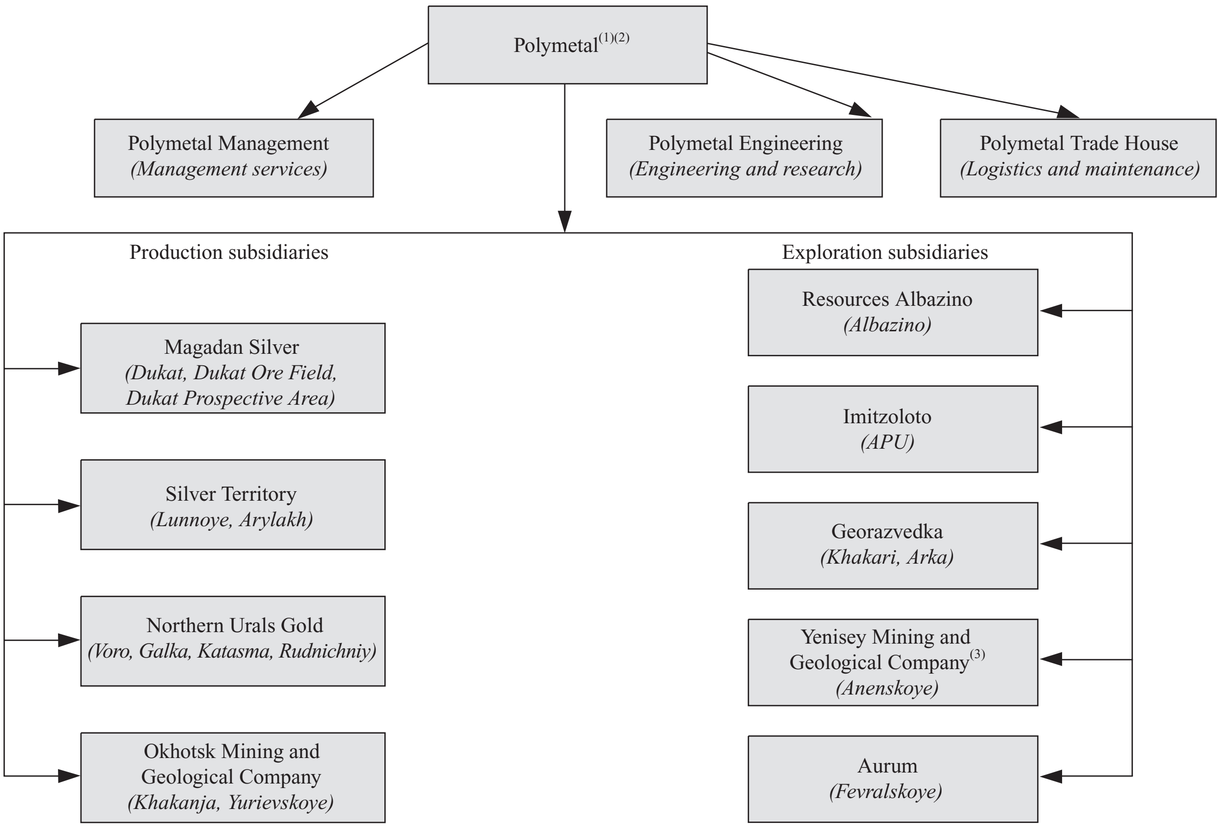
Corporate History

The Company was incorporated in Saint Petersburg by the ICT Group in 1998. Prior to 2000, the Company acquired seven silver and gold deposits (Barun-Kholba, Dukat, Khakanja, Kirovskoe, Lunnoye, Murtykty and Voro). During this phase, the Company's main objective was to obtain mining licences for deposits that, although not in production at that time, had already been sufficiently explored to warrant investment to establish commercial production. The Company successfully designed, obtained permits for, constructed and started up commercial operations at each of the seven deposits between 2000 and 2003. In 2000, the Company launched mining and processing operations (heap leaching of oxidised ores) at Voro (Stage I) and in 2001 commenced mining and milling operations at Lunnoye. In 2002, the Company determined that Murtykty and Kirovskoe lacked sufficient production capacity and ore reserves, and sold those deposits to third parties. The Company launched mining and processing operations at Dukat in 2002 and at Khakanja in 2003. The Company disposed of Barun-Kholba in 2004, due to its lack of sufficient capacity and ore reserves. The four remaining deposits namely, Dukat, Lunnoye, Khakanja, and Voro, are the Company's core assets.

In 2004, the Company was reorganised, and, as part of this reorganisation, Polymetal Management and Polymetal Engineering were established as separate subsidiaries, in order to provide streamlined management services and enhance corporate governance, accountability and transparency. In 2004, the Company also launched processing operations (tank leaching of primary ores by the carbon-in-pulp method) at Voro (Stage II) and in 2005 expanded the processing plant at Khakanja. ICT and its subsidiaries, including Polymetal, were sold by ICT's shareholders to Nafta Moskva in November 2005. In 2006, the Company acquired Resources Albazino (the Albazino deposit, Khabarovsk Territory). In September 2006 the Company signed a preliminary agreement to establish a strategic alliance with AngloGold Ashanti, and in December 2006 the Company formed a joint venture with Mongolrostsvetmet.

Corporate Organisation

Polymetal operates its business through four production subsidiaries, five exploration subsidiaries, a management subsidiary, an engineering and scientific research subsidiary and a logistics and maintenance subsidiary. The following chart illustrates the Company's corporate structure and indicates, where applicable, the services provided by or deposits operated by each subsidiary.



(1) Each of the Company's subsidiaries is 100% beneficially owned by the Company, except for Aurum, in which the Company holds an 85% interest.

(2) For a description of the licences held by each of the Company's subsidiaries, see "—Description of Properties and Mining Operations—Overview".

(3) Polymetal holds its interests in Yenisey Mining and Geological Company indirectly through its wholly-owned subsidiary Polyholding Limited.

Polymetal acts as a holding company and derives its revenues entirely from the operations of its subsidiaries. The Company's mining operations are conducted through its production subsidiaries, which hold the production and exploration licences for its mines. Dukat and Lunnoye are closely lined technologically and are managed as a single business unit. The Company's exploration and development activities are conducted through its exploration subsidiaries, which hold licences for stand-alone exploration projects such as Albazino, and its production subsidiaries, which hold licences for regional exploration campaigns. Polymetal Management provides management services to each of the Company's subsidiaries. Polymetal Engineering provides research and engineering services to the Company's production and exploration subsidiaries as well as to third parties. Polymetal Trade House provides logistical, supply, purchasing and maintenance services to each of the Company's subsidiaries.

The Company's corporate office, as well as its engineering subsidiary, is located in Saint Petersburg. The Company also has regional representative and supply chain management offices in Magadan and Khabarovsk. As of 30 September 2006, the Company employed approximately 4,800 employees, of whom 8.1% were based in Saint Petersburg and its representative offices, 82.4% were based at its four operating mines and 9.5% were employed at its specialised exploration subsidiaries or stand-alone exploration and development projects.

Resource Base

The table below sets forth the Company's ore reserves and mineral resources, classified in accordance with the JORC Code, as of 30 September 2006. The breakdown of the Company's ore reserves and mineral resources by degree of geological certainty demonstrates that the Company's mineral resource base is relatively well defined.

	Tonnage	Grade		Content	
		(Au g/t)	(Ag g/t)	(Au Koz)	(Ag Koz)
Ore Reserves[(1)(2)]					
Proved					
Dukat	12,779	1.1	560.7	433	230,359
Lunnoye	624	2.4	372.2	48	7,471
Khakanja	3,713	5.1	251.0	614	29,962
Voro	17,834	3.1	4.1	1,754	2,343
Arylakh	1,071	0.9	445.8	31	15,351
Yurievskoye	381	13.4	11.4	164	140
Subtotal	**36,402**	**2.6**	**244.0**	**3,044**	**285,626**
Probable					
Dukat	5,827	1.2	502.9	218	94,211
Lunnoye	2,278	1.6	340.7	120	24,950
Khakanja	1,314	4.5	190.6	190	8,051
Voro	4,123	1.6	2.4	215	316
Arylakh	589	0.5	518.8	9	9,822
Yurievskoye	4	8.3	8.6	1	1
Subtotal	**14,134**	**1.7**	**302.2**	**753**	**137,351**
Total Ore Reserves	**50,537**	**2.3**	**260.3**	**3,797**	**422,977**
Mineral Resources					
Measured					
Dukat	13,417	1.2	657.4	534	283,594
Lunnoye	677	2.8	434.3	61	9,449
Khakanja	3,347	5.9	294.3	640	31,661
Voro	19,465	3.1	4.4	1,939	2,741
Arylakh	924	1.2	558.1	37	16,588
Yurievskoye	584	11.8	11.9	222	224
Subtotal	**38,414**	**2.8**	**278.7**	**3,433**	**344,257**
Indicated[(3)]					
Dukat	6,217	1.3	577.7	265	115,463
Lunnoye	1,999	2.1	476.3	133	30,613
Khakanja	1,132	5.5	237.8	201	8,654
Voro	4,532	1.8	2.7	261	389
Arylakh	767	0.7	589.5	18	14,533
Yurievskoye	130	7.9	10.9	33	46
Albazino	4,300	5.6	—	769	—
Subtotal	**19,076**	**2.7**	**276.7**	**1,679**	**169,698**
Total Measured + Indicated	**57,490**	**2.8**	**278.1**	**5,112**	**513,955**

	Tonnage	Grade		Content	
		(Au g/t)	(Ag g/t)	(Au Koz)	(Ag Koz)
Inferred[(4)]					
Dukat	16	1.0	437.5	1	229
Lunnoye	741	1.0	562.7	24	13,412
Khakanja	77	5.0	258.7	12	642
Voro	64	2.5	3.4	5	7
Arylakh	82	1.4	506.5	4	1,341
Yurievskoye	26	13.9	14.0	12	12
Albazino	2,305	4.4	—	329	—
Subtotal	**3,312**	**3.6**	**146.9**	**387**	**15,642**
Total Mineral Resources	**60,802**	**2.8**	**270.9**	**5,498**	**529,598**

(1) The estimates for ore reserves (Proved and Probable) presented above are based on the following economic cut-off grades (in situ): Dukat: 205-235 g/t Ag equivalent for open-pit and 290 g/t Ag equivalent for underground operations; Lunnoye: 270 g/t Ag equivalent for open-pit and 370-665 g/t Ag equivalent for underground operations; Khakanja: 3.0-3.3 g/t Au equivalent for open-pit and 4.6-4.7 g/t Au equivalent for underground operations; Voro: 0.9 g/t Au equivalent for oxidised ore, 1.2 g/t Au equivalent for primary ore; Arylakh: 330 g/t Ag equivalent for open-pit; Yurievskoye: 4.0 g/t Au equivalent.

(2) The Company's ore reserves are based on a gold price of U.S.$450/oz and a silver price of U.S.$7.00/oz; mineral resources are based on a gold price of U.S.$550/oz and a silver price of U.S.$8.00/oz. At 30 September 2006, the silver price was $11.55/oz and the gold price was $599.25/oz.

(3) Measured and indicated mineral resources are stated inclusive of ore reserves but with no allowance for ore loss or dilution. The estimates for Mineral Resources (Indicated and Inferred) presented above for Albazino are based on the economic cut-off grades (in situ) 2.0 g/t Au.

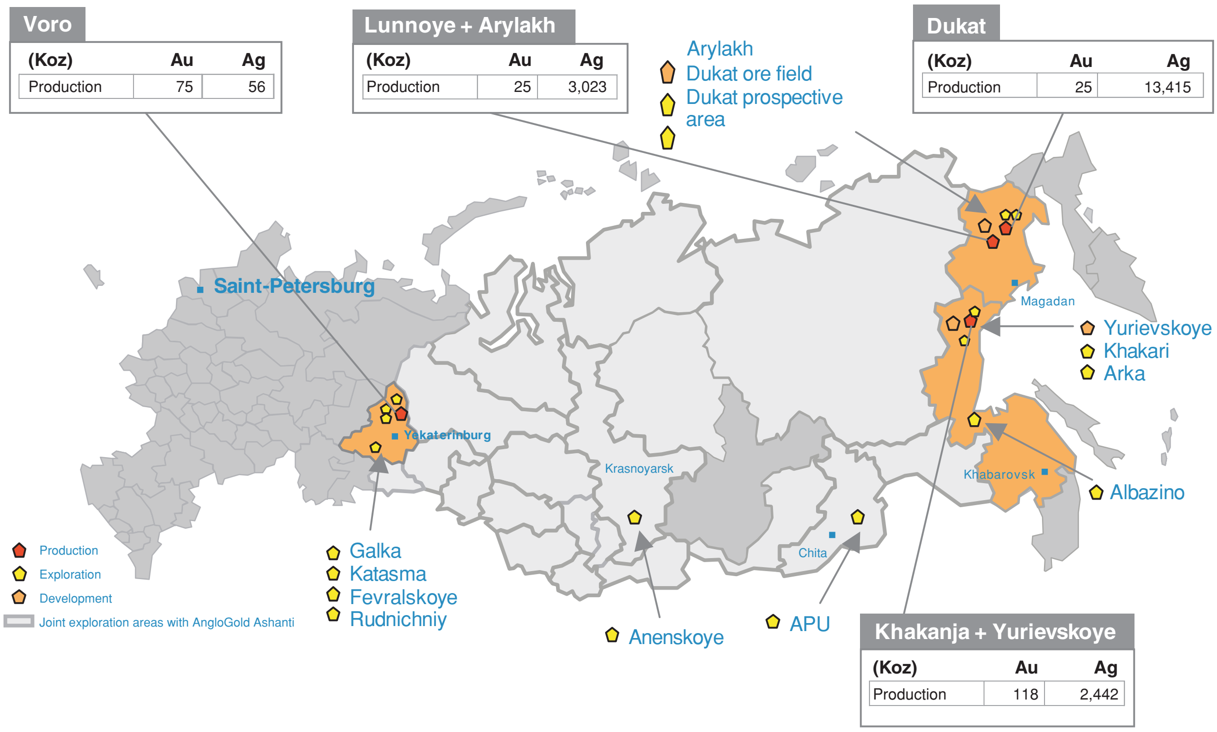
(4) Inferred mineral resources are stated exclusive of reserves and measured and indicated mineral resources.

Description of Properties and Mining Operations

Overview

The Company's mining operations include four active mines: Dukat, Lunnoye, Khakanja and Voro. In addition to its four active deposits (two primary silver and two primary gold deposits, respectively), the Company also has a pipeline of development projects, the most advanced of which include Albazino, Fevralskoye and Khakarinskaya. The Company also holds exploration licences for deposits in the Khabarovsk, Magadan and Sverdlovsk regions of Russia, among other areas.

The location of the Company's operations and the geographical areas in which the Company operates are shown in the following map of Russia.



Notes:
Production for year ended 31 December 2005
Anenskoye and APU will be contributed to the 50/50 JV with AngloGold Ashanti

The table below shows the Company's assets by deposit, subsidiary and region, with information on type of mine, type of licence and the expiration date of the licences under which the Company conducts its mining and exploration operations.

Deposit	Subsidiary Holding Licence	Region	Type of Mine	Type of Licence	Licence Expiration Date
Dukat	Magadan Silver	Magadan Region	Open-pit & underground	Production	December 2017
Lunnoye	Silver Territory	Magadan Region	Open-pit (underground planned from 2008)	Exploration and production	December 2016(1)
Khakanja	Okhotsk Mining and Geological Company	Khabarovsk Territory	Open-pit (underground planned from 2011)	Exploration and production	December 2014
Voro	Northern Urals Gold	Sverdlovsk Region	Open-pit	Exploration and production	December 2018
Arylakh	Silver Territory	Magadan Region	Open-pit (from 2007)	Exploration and production	December 2016
Yurievskoye	Okhotsk Mining and Geological Company	Khabarovsk Territory	Open-pit	Exploration and production	December 2014
Fevralskoye	Aurum	Sverdlovsk Region	Not yet known	Exploration and production	September 2018
APU	Imitzoloto	Chita Region	Open-pit	Exploration	September 2008
Anenskiy	Yenisey Mining and Geological Company	Krasnoyarsk Territory	Not yet known	Exploration	December 2006(2)
Galkinskiy	Northern Urals Gold	Sverdlovsk Region	Open-pit	Exploration	December 2010
Katasminskiy	Northern Urals Gold	Sverdlovsk Region	Open-pit	Exploration and production	March 2031
Rudnichniy	Northern Urals Gold	Sverdlovsk Region	Open-pit	Exploration	August 2011
Khakarinskaya	Georazvedka	Khabarovsk Territory	Not yet known	Exploration and production	December 2025
Arkinskaya	Georazvedka	Khabarovsk Territory	Open-pit	Exploration	March 2011
Albazino	Resources Albazino	Khabarovsk Territory	Open-pit	Exploration and production	January 2015
Dukat Prospective Area	Magadan Silver	Magadan Region	Not yet known	Exploration	July 2011
Dukat Ore Field	Magadan Silver	Magadan Region	Not yet known	Exploration and production	November 2031

(1) The Company has applied for amendment of the licence to reduce the required minimum production levels in 2007.

(2) The Company has applied for renewal and conversion of the exploration licence to a combined production and exploration licence and expects this licence to be granted in the first quarter of 2007.

For a detailed description of the Company's principal production and exploration licences, see "General Information—Licences". No assurances can be given that the Company's licences will be renewed upon their expiry date or that they will not be suspended or terminated prior to that expiry date. See "Risk Factors—Risks Relating to the Company's Operations—The Company is dependent on obtaining and maintaining licences necessary for the operation of its business".

Dukat

The table below presents an overview of the Company's mining operations at the Dukat deposit.

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004	2003
Ore mined (Kt)					
open-pit (Kt)	323	295	383	448	379
underground (Kt)	353	337	462	392	224
Ore milled (Kt)	642	641	867	763	548
Processing capacity (Kt pa)	950	850	850	750	750
Ag av. head grade (g/t)	568	605	603	606	783
Au av. head grade (g/t)	1.2	1.3	1.2	1.4	1.6
Recovery rate, Ag	81%	78%	79%	82%	62%
Ag produced (Moz.)	9.5	9.7	13.4	12.1	8.6
Au produced (Koz.)	18	18	25	24	22
CapEx ($USmln.)	7.1	3.3	5.6	5.0	4.7
Total Cash Costs, by-product basis (U.S.$/oz. Ag)	4.28	4.28	4.04	2.40	2.61
Total Cash Costs, co-product basis (U.S.$/oz. Ag)	5.00	4.76	4.57	3.14	3.06
Total Cash Costs, co-product basis (U.S.$/oz. Au)	349.60	285.08	275.07	184.25	259.43

Location, Access and History

The Dukat mine is located approximately 40 km north of the town of Omsukchan in the Magadan region of the Russian Federation. Omsukchan is located approximately 600 km north of the city of Magadan, and can be accessed from Magadan via unpaved roads, ongoing improvements to which are being made by regional authorities.

Dukat was discovered in 1967 and is the third largest silver deposit globally and the largest in Russia by ore reserves, containing 60% of Russia's total silver reserves. Exploration commenced in 1971 and, by 1977, 84 ore zones had been identified over approximately 1.4 km of strike length and to a depth of 500 m. Between 1980 and 1997, the deposit was mined by the Dukat Mining and Processing Complex through a combination of underground and open-pit methods. During 1998, the legal rights to the deposit were acquired by a joint venture between Pan American Silver (70%) and various Russian companies (30%).

The Company acquired a controlling interest in Dukat in 2000 through a joint venture between the Company (68% indirect interest), Pan American Silver (20% indirect interest), and various other Russian companies (12% indirect interest), which re-started production through a combination of underground and open-pit methods in 2002 with an initial processing capacity of 750 ktpa. The treatment plant was refurbished in 2002 and reached capacity of 750 ktpa in 2004. Plant capacity was expanded to 850 ktpa in 2005 with the addition of a parallel grinding circuit, flash flotation automation and a new flotation reagent. The Company bought out the minority shareholders in 2004 and 2005. A portion of the consideration owed to Pan American Silver remains unpaid, some of which the Company intends to pay from the proceeds of the Offering. See "Operating and Financial Review—Contingencies and Off-Balance Sheet Arrangements—Acquisition of remaining interest in Magadan Silver".

Mine Life, Geology and Mineralisation

According to the Company's current LoM plan, the mine life of Dukat is expected to be in excess of twenty years, including five years of open-pit mining (until 2011) and twenty years of underground mining (until 2026).

The Dukat deposit covers 11.4 sq. km and comprises 84 distinct ore veins and ore zones. Ore bodies are steeply dipping with an average width of 6 to 15 metres. The five largest ore zones display continuity over several hundred metres and account for 85% of the ore reserves of the deposit. The largest ore body has a maximum thickness of up to 50 m, a strike length of 2 km and has been investigated by drilling and underground sampling to a depth of 600 m. Some smaller veins and zones have not been fully explored and there is potential to discover more ore beyond the currently known ore boundaries. Major ore minerals are silver sulphides, silver sulphasalts, native silver and native gold associated with sulphides.

In 2006, the Company acquired an exploration licence for the Dukat Ore Field and commenced an extensive exploration campaign. The Dukat Ore Field comprises a highly prospective area of 40.6 sq. km immediately surrounding the Dukat mine. Drilling was completed in 2006, and the geology consists of gold and silver mineralisation associated with quartz-chlorite-adularia and quartz-rhodonite veins, vein zones and areas of silicification. The Company plans to conduct 22,000 m of drilling at eight targets in 2007. Several highly promising prospective areas have been identified near the existing operations and five exploration rigs are currently drilling the prospective sites of Nachalnoye-1, Nachalnoye-2, Neyag, and Irguchan. The best intersection at Nachalnoye-2 is 25 m with 1200 g/t silver starting at a depth of 50 m. The Company plans to continue drilling at these target sites in 2007 and 2008 and expects to define additional resources to feed the expanded Dukat processing plant scheduled to reach capacity in 2009.

Mining and Processing

Mining at Dukat is conducted both by open-pit and underground methods using conventional mechanised mining equipment and techniques. The current total production rate is 950 ktpa with open-pit and underground produced ore contributing 400 ktpa and 550 ktpa, respectively. Open-pit mining is being conducted in three stages and operations are currently focused on three of the seven identified pits. Underground mining at Dukat employs sublevel open stoping, which makes use of the permafrost conditions throughout the mine making both host rock and ore very stable. Currently ore is transported to the surface through a system of adits. In 2005 the Company started the construction of the underground railway haulage designed to handle ore from the open-pit and underground mines and in order to reduce ore transportation costs. The Company currently expects this project to be completed by the end of 2007.

The mine works as a continuous operation, utilising two 11-hour shift patterns in the open-pit and three 7-hour shift patterns in the underground operation. The open-pit production schedule incorporates an allowance of 40 days in which it is not considered possible to work due to temperatures falling below −45°C. Contractors transport the ore by truck approximately 40 km to the processing plant. The Dukat mine employs approximately 1,100 personnel.

At Dukat, ore is processed using conventional sulphide flotation technology with a designed production capacity of 950 ktpa. The Dukat flowsheet comprises conventional flotation to produce a mixed sulphide concentrate which is transported to the Lunnoye processing plant where it is mixed with Lunnoye ore and processed into zinc precipitate via agitated-tank cyanide leaching and the Merrill Crowe process. Collective precipitate is then processed into doré bars at the company-owned smelter immediately adjacent to the Dukat processing plant. During 2005, the overall recovery rate to doré bars was 82.1% for silver and 76.9% for gold. The tailings dam is a traditional ring-dyke impoundment, which was expanded during 2005 and 2006 in anticipation of the potential increase in processing capacity.

Production of silver at Dukat increased from 8.6 million ounces in 2003 to 13.4 million ounces in 2005, with output for the nine months ended 30 September 2006 decreasing slightly from the nine months ended 30 September 2005, at 9.5 and 9.7 million ounces, respectively. Gold production at Dukat remained relatively constant throughout the periods presented. Recovery rates have risen steadily over the last three years as the new concentrate loading facility has minimised transportation losses and flotation technology has been customised for ores from various ore bodies. The Company plans to further improve recovery rates by commissioning a new gravel flotation circuit in the second quarter of 2007. The amount of ore milled has been increased beyond the initial designed capacity by de-bottlenecking the grinding circuit at the processing plant. The Company has started a major capital project aimed at increasing processing plant capacity to 1.5 Mtpa. The Company plans to construct a new SAG mill adjacent to the current plant at an estimated capital cost of U.S.$1.1 million and to complete this capacity expansion at Dukat by the end of 2008.

The current LoM plan includes production of 400 ktpa from the open-pit and 550 ktpa from underground operations until 2010. Thereafter, the production rate of 950 ktpa will be derived solely from underground operations. The transition to exclusively underground mining at Dukat is not expected to impact operating costs compared with open-pit mining costs. Open-pit mining costs at Dukat are relatively high due to the high stripping ratio, small size of the pits, and severe climatic conditions, which result in fuel and maintenance costs that are higher than usual. Underground mining at Dukat, on the other hand, is characterised by wide, steeply dipping ore bodies with good wall stability and consistent geometry down-dip and along strike. Also, with the completion of the underground railway haulage, underground mining costs are expected to decline as haulage distances are reduced and equipment productivity improves. The Company plans to provide ore for the second section of the expanded processing plant from several highly prospective ore occurrences on the flanks of the known orebodies.

Equipment, Infrastructure and Logistics

In the open-pit mines, a combination of hydraulic excavators and wheel loaders are currently used to load ore and waste from the mining face into off-highway trucks. The trucks are standard Belorussian equipment whilst the hydraulic excavators, wheel loaders and bulldozers are purchased from international manufacturers. Two Ingersoll-Rand production rigs are used for drilling. The underground mining operation is fully mechanised and load, haul and dump trucks ("LHDs") and low-profile dump trucks are used to transport ore to the surface. Rubber-tyred long-hole production drill rigs are employed for open stoping and development jumbos are used for work on tunnels and excavations.

Dukat has access to infrastructure and services available from the town of Omsukchan. Power is supplied from the state-owned grid adjacent to the mine and the processing plant via powerlines. Electricity at Dukat is supplied by Magadanenergo, a regional subsidiary of the state-owned electric power monopoly, RAO UES. Magadanenergo is not currently subject to the Russian energy sector reforms, and the Company does not currently expect that the tariffs and services offered by Magadanenergo will be affected by the planned restructuring of RAO UES. The Company has diesel generators to provide stand-by power to supply the mine, the smelter and other facilities (except the processing plant) in the event of a power supply disruption. Water is provided to the mine from the Omsukchan municipal supply via pipelines to the plant site.

Fuel, consumables and spares are delivered to the all-season port of Magadan (650 km from Dukat) by regular freight carriers from the Russian ports of Vanino and Nakhodka and from the South Korean port of Pusan. Principal access to Magadan is by sea as there is no railway in the Magadan region and road transport is less reliable and more expensive. The freight is carried to the mines from Magadan by contractors' trucks via unpaved roads, which are accessible year round. There are heated hangars for spares as well as open warehouses for storage of bulk consumables. Dukat has a relatively small fuel depot as it uses less diesel fuel and there is less likelihood of roads to Dukat being blocked during the winter. There is a certified explosives storage facility at Dukat. The Company has in-house maintenance teams and service contracts with its major equipment providers, including Atlas Copco, Komatsu, Caterpillar and Wartsila, under which employees of such providers are permanently based at the Company's mines.

Investment Costs

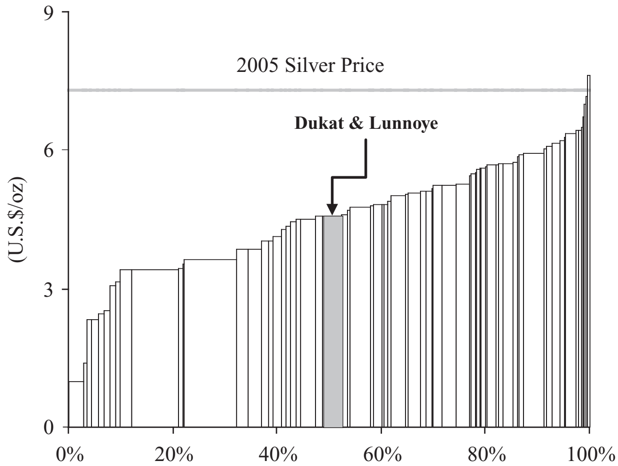
A total of $37.6 million of capital has been budgeted over the LoM plan principally for the purchase of additional and replacement equipment for open-pit ($6.3 million) and underground operations ($31.3 million). In 2003, the Company spent $1.2 million on new underground mining equipment at Dukat. In 2004, the Company spent $2.7 million on the expansion of the underground mining fleet and building new housing accommodation for employees at Dukat. In 2005, the Company spent $0.3 million on the installation of a standby energy supply system at Dukat. During 2006, the Company's capital expenditures at Dukat amounted to $11.4 million, mainly representing investments to build the new tailings dam and to expand processing plant capacity. The Company has budgeted $0.4 million for installation of the underground railway haulage system in 2007. The Company has budgeted $5.0 million for the expansion of the processing plant at Dukat for the period up to commissioning in 2008.

The actual costs of the Company's investments at Dukat and its other mines may exceed the amounts budgeted by the Company. The Company may be unable to complete these projects as planned for financial or other reasons. See "Risk Factors—Risks Relating to the Company's Operations—The Company will incur significant capital expenditures in order to increase its production levels and improve overall efficiency which it may not be able to finance".

Cash Costs

Dukat and Lunnoye are closely linked technologically and are managed as a single business unit. In 2005, their combined Gold Institute Standard ("GIS") total cash costs were $4.04/oz of silver on a by-product basis and $4.57/oz of silver (and $275.07/oz of gold) on a co-product basis. A cost curve produced by CRU ranked the combined Dukat and Lunnoye operations on a co-product basis in the first half of world production of silver in 2005.

2005 Total Cash Cost Curve



Source: CRU Limited. Presented on a co-product basis.

The cash cost figures derived by the Company may differ from the cash cost figures used by CRU in the preparation of their cost curves. The cost curve prepared by CRU ranks the Company's operations on a co-product basis, and the Company's ranking may differ were it to be ranked on a by-product basis.

Lunnoye and Arylakh

The table below presents an overview of the Company's mining operations at the Lunnoye deposit.

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
Ore mined (Kt)					
Open-pit	217	158	233	284	306
Underground	—	—	—	—	—
Ore milled (Kt)	201	202	257	257	246
Processing capacity (Kt pa)	300	300	300	300	300
Ag av. head grade (g/t)	325	367	382	499	453
Au av. head grade (g/t)	2.5	3.0	2.9	3.7	3.2
Recovery rate, Ag	89%	96%	96%	90%	86%
Recovery rate, Au	93%	104%	94%	96%	67%
Ag produced (Moz.)	1.9	2.3	3.0	3.7	3.1
Au produced (Koz.)	15	20	25	31	17
CapEx ($USmln.)	3.0	0.5	1.3	1.8	3.0
Total Cash Costs, by-product basis (U.S.$/oz. Ag)	4.28	4.28	4.04	2.40	2.61
Total Cash Costs, co-product basis (U.S.$/oz. Ag)	5.00	4.76	4.57	3.14	3.06
Total Cash Costs, co-product basis (U.S.$/oz. Au)	349.60	285.08	275.07	184.25	259.43

Location, Access and History

Lunnoye and Arylakh are located in the Magadan region, with the nearest town being Omsukchan. Lunnoye is located approximately 150 km from Omsukchan via an unpaved road, and the satellite deposit of Arylakh is located approximately 20 km from Lunnoye.

The Lunnoye deposit, discovered in 1987, is located in the southern part of the Arylakh ore basin and comprises 13 ore zones, four of which have been the focus of extensive exploration. According to data published by the Silver Institute in 2005, Lunnoye is among the 15 largest silver mines in the world by production. Surface exploration and drilling programmes at Lunnoye were completed between 1992 and

1995. A feasibility study was completed in 1994 and ore reserves were estimated to a depth of 400 m, the first 60 m of which were considered to be amenable to open-pit mining. Polymetal acquired the company holding the exploration and production licence for Lunnoye in 1999. In 2001, construction of the processing plant was completed and open-pit mining commenced, with a processing capacity of approximately 300 ktpa. From 2003, the mine began co-processing ore from Lunnoye and concentrate from Dukat. In 2006, the construction of the access adit marked the beginning of the construction of the underground mine, which the Company currently expects to reach its design capacity of 300 ktpa in 2008. The Company expects that the open pit will be fully depleted by the end of 2007.

The Arylakh deposit was discovered in 1986 and, between 1987 and 1988, preliminary exploration was conducted, comprising a combination of trenching, diamond drilling and underground development. The Company obtained an exploration and production licence for Arylakh in 1999, and a feasibility study was completed in 2000. In the third quarter of 2006, the Company completed the construction of an all-year road from Lunnoye to Arylakh and purchased a mining fleet for this operation. Mining at Arylakh began in the fourth quarter of 2006, at which time the Company began processing ore from Arylakh at the Lunnoye plant.

Mine Life, Geology and Mineralisation

Lunnoye

According to the Company's current LoM plan, the Lunnoye mine life comprises a year of open-pit mining during 2007 and fifteen years of underground mining (from 2008).

The Lunnoye deposit consists of thirteen zones of mineralisation with the largest zone containing 85% of known ore reserves. The steeply dipping main ore body is 5 m to 35 m wide and lies on the immediate footwall of a major fault zone having a strike length in excess of 1 km. The ore zone is visually distinctive, which helps to contain dilution when mining. Major ore minerals present include silver sulphides and native free gold. The ore body is currently not fully defined at depth. Drilling in 2006 has identified several zones of mineralisation, and the best intersections are 4.5 m at 11 g/t gold and 1,233 g/t silver. The Company expects to proceed with further delineation of deep-level mineral resources after underground mining commences.

The Company's exploration near Lunnoye consists of exploration at the Lunnoye deep levels, which has reached the feasibility study stage. The Company plans to conduct an extensive drilling programme at Lunnoye in 2007.

Arylakh

According to the Company's current LoM plan, Arylakh's mine life comprises nine years of open-pit mining from 2007.

The Arylakh deposit's main ore body is a zone of multiple quartz veins up to 1.4 km in length and extending to a depth of 250 m. The ore body is currently open at depth. Several small veins are present parallel to the main ore structure. The main ore body has highly variable width from less than 1 m to 15 m which necessitates extensive grade control when mining. The ore contains very few sulphides, and most silver is in free form.

Mining and Processing

The Lunnoye operation comprises open-pit mining at a capacity of 300 ktpa with underground mining at a designed capacity of 150 ktpa planned from 2007 and rising to 300 ktpa by 2011. The operation comprises a conventional truck and shovel operation with drilling and blasting of ore and waste. The Lunnoye underground mine will use conventional sublevel open stoping. The mine works continuously, on a four-week roster, utilising a two 11-hour shift pattern, so that approximately 300 of the approximately 800 employees are on site at any one time.

The Arylakh operation comprises open-pit mining at a production rate of 150 ktpa. Only open-pit mining is planned at this stage although an extension by underground methods may be considered in the future. The deposit is planned as a satellite operation to Lunnoye and will utilise some of Lunnoye's open-pit mining equipment when Lunnoye's operations move underground. The same shift patterns used at Lunnoye are likely to be employed at Arylakh.

The Lunnoye processing plant processes ore from both the Lunnoye deposit and the Arylakh deposit, as well as concentrate from Dukat, by agitated-tank cyanide leaching and the Merrill Crowe process. The designed processing capacity of the plant is 300 ktpa of ore and 50 ktpa of concentrate. The tailings dam is a conventional valley-type impoundment. The processing plant at Lunnoye produces zinc precipitate which is subsequently converted to doré bars at the smelter. The overall recovery rate in 2005 was 89.9% for silver and 93.8% for gold. Production of silver at Lunnoye decreased from 3.7 million ounces in 2004 to 3.0 million ounces in 2005, due to falling head grades, and was in line with the 3.0 million ounces produced in 2003. During the nine months ended 30 September 2006, silver production at Lunnoye decreased to 1.9 million ounces from the 2.3 million ounces produced in the nine months ended 30 September 2005, due to falling head grades and the transition from open-pit to underground mining. Gold production at Lunnoye, increased from 2003 to 2004, then declined from 2004 to 2005, with the nine months ended 30 September 2006 down from the nine months ended 30 September 2005.

Equipment, Infrastructure and Logistics

At the Lunnoye open-pit mine, a single hydraulic excavator and wheel loader are currently used to load ore and waste from the mining face into articulated frame trucks. The trucks are standard Belorussian equipment whilst the hydraulic excavator, wheel loader and bulldozers are Japanese and American. The production drill rigs are manufactured by Ingersoll-Rand. An excavator, a front-end loader, a drill rig and four articulated frame trucks are used at Arylakh.

The mechanised underground mining operation planned for Lunnoye is based on LHDs and low-profile underground trucks for ore and waste handling to the surface. The Company plans to use long-hole production rigs and development jumbos for drilling.

Due to the remote location of the mine, power is generated on site using diesel generators (four operating plus one standby). Diesel is transported from Magadan, and a three-month supply of fuel is available on site. Fuel represents a relatively higher proportion of costs at Lunnoye than at other mines due to its remote location. Water is supplied from local boreholes. The Lunnoye deposit can be accessed by all-year roads from the Dukat operation, and spares, consumables and materials are delivered at regular intervals to the site. Emergency spares can be accessed from Magadan and take approximately two days to arrive at site. See "—Dukat—Equipment, Infrastructure and Logistics". Lunnoye has a 3,000 m^3 fuel storage depot to provide for a temporary fuel supply in the event of transport disruption due to inclement weather. There is also a certified cyanide storage facility and certified explosives storage facility at Lunnoye. The Company's principal cyanide supplier is Hyosung.

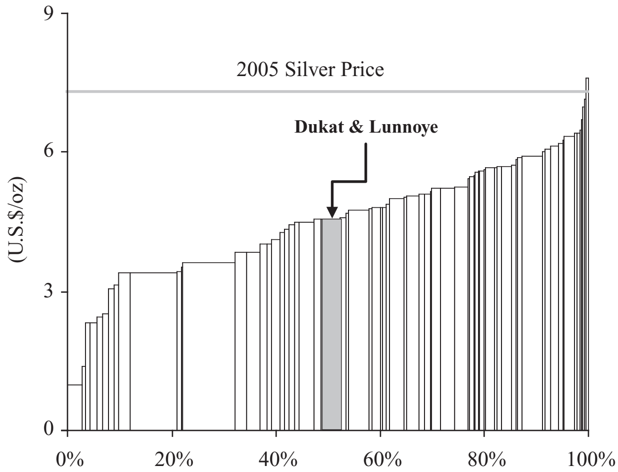
Investment Costs

Polymetal has budgeted a total of $42.5 million of capital expenditure over the LoM plan which principally comprises mining capital expenditure for the purchase of additional and replacement equipment for open-pit ($4.9 million) and underground operations ($11.8 million). In 2004, the Company spent $0.2 million to upgrade the Merrill Crowe section of the Lunnoye processing plant. In 2005, the Company spent $0.2 million to install a new cyanidation tank and concentrate overload unit. During 2006, the Company spent $4.8 million to start construction of the underground mine at Lunnoye and to build a road and buy a mining fleet for the newly commissioned Arylakh mine. During 2007 and 2008, the Company has budged $3.3 million to expand the underground mine and to build housing accommodation for employees at Lunnoye.

Cash Costs

In 2005, the combined GIS total cash costs for Dukat and Lunnoye were $4.04/oz of silver on a by-product basis and $4.57/oz of silver (and $275.07/oz of gold) on a co-product basis. A cost curve produced by CRU ranked the combined Dukat and Lunnoye operations on a co-product basis in the first half of world production of silver in 2005.

2005 Total Cash Cost Curve



Source: CRU Limited. Presented on a co-product basis.

The cash cost figures derived by the Company may differ from the cash cost figures used by CRU in the preparation of their cost curves. The cost curve prepared by CRU ranks the Company's operations on a co-product basis, and the Company's ranking may differ were it to be ranked on a by-product basis.

Khakanja and Yurievskoye

The table below presents an overview of the Company's mining operations at the Khakanja deposit.

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
Ore mined (Kt)					
Open-pit	492	583	721	617	55
Underground	—	—	—	—	—
Ore milled (Kt)	375	280	382	213	32
Processing capacity (Kt pa)	600	500	500	500	500
Au av. head grade (g/t)	7.3	10.2	9.9	13.0	10.6
Ag av. head grade (g/t)	272	410	389	431	366
Recovery rate, Au	93%	99%	97%	90%	—
Recovery rate, Ag	48%	52%	51%	49%	—
Au produced (Koz.)	81	91	118	79	0
Ag produced (Moz.)	1.6	1.9	2.4	1.5	0
CapEx (U.S.$mln.)	8.9	2.4	6.0	7.0	27.9
Total Cash Costs, by-product basis (U.S.$/oz. Au)	74.63	49.39	64.43	97.96	—
Total Cash Costs, co-product basis (U.S.$/oz. Au)	208.71	152.12	160.26	158.17	—
Total Cash Costs, co-product basis (U.S.$/oz. Ag)	3.70	2.32	2.38	2.56	—

Location, Access and History

The Khakanja mine is located in the Khabarovsk Territory, approximately 1,100 km north of Khabarovsk and 480 km west of the city of Magadan. The only access to Khakanja from Khabarovsk or Magadan is by air; however, the port of Okhotsk lies 100 km to the south and can be accessed by road.

The Khakanja deposit was discovered in 1960 and extensive exploration was conducted in 1963 and 1971. The Company acquired the company holding the licences for Khakanja in 1998. Development of the project commenced in 1999 with the construction of a road from the town of Okhotsk, which was completed during 2002. A pre-feasibility study was prepared in 2001 based on ore reserves of approximately 6 Mt of ore and a production rate of approximately 500 ktpa. The mine and mill complex at Khakanja was launched in 2003, and expansion of the mill capacity to 600 ktpa was completed in 2006.

The Yurievskoye deposit, located approximately 60 km from Khakanja, will be mined as a satellite operation. The deposit was discovered in 1975 and exploration was conducted between 1976 and 1980 by trenching, diamond drilling and underground development. The Company obtained a licence for exploration and mining of the Yurievskoye deposit in 1998. During 2002, the Company conducted a feasibility study which established ore reserves of over 300 m of strike length. The Company plans to mine Yurievskoye by open-pit methods to a depth of 60 m to supplement production at Khakanja.

Mine Life, Geology and Mineralisation

Khakanja

According to the Company's current LoM plan, Khakanja's mine life consists of seven years of open-pit mining (from 2006) and six years of underground mining (from 2011).

The mineralised horizon at Khakanja varies in thickness between 5 m and 90 m. The three distinct ore zones are separated by a series of fractures. The central ore zone containing 70% of the ore reserves has a strike length of 600 m and a proven down dip extension of 650 m. The northern ore zone has a strike length of 260 m and a down dip extension of 100 m, and the south ore zone has a strike length of only 150 m and dips downward for 60 m. Gold is mostly free milling and fine-grained. Silver contained in the Khakanja ore zone is mostly in sulphide form. Very fine association with manganese accounts for the relatively low recovery of silver from the central ore zone. The Company has completed exploration of the Khakanja flanks and deep levels and currently plans conduct a feasibility study by the end of 2008.

Yurievskoye

According to the Company's current LoM plan, Yurievskoye's mine life is three years of open-pit mining from 2013.

The Yurievskoye deposit has a single ore body representing a steeply dipping vein system extending 700 m along strike with width varying from 0.5 to 15 m. The ore body extends to over 200 m below the surface, but the grade reduces with depth. The gold is free milling and relatively fine grained.

Mining and Processing

The Khakanja operation comprises open-pit mining at the Khakanja deposit at a designed capacity of 500 ktpa until 2008 and then at 350 ktpa from 2009, and is expected to be supplemented by underground production at a rate of 150 ktpa from 2009. Open-pit mining is expected to commence at the Yurievskoye satellite deposit in 2013.

The Khakanja open-pit is a conventional truck and shovel operation. Three pits are planned at Khakanja. The central pit has thus far been the only source of ore, but operations will commence at the south pit in 2009 to be followed by the north pit in 2011. Underground production at Khakanja will only commence later in the life of the mine and at a production rate of 150 ktpa. Underground mining methods are expected to be fully mechanised and employ large non-entry stoping methods to extract ore at depths of 250 m below the surface. Approximately 900 people work at the mine.

The Yurievskoye deposit is located approximately 80 km from Khakanja, and the Company plans to blend ore from the Yurievskoye pit with ore from Khakanja at a production rate of 100 ktpa. The operation will be mined by two open-pits, which are planned to extract ore to approximately 60 m in depth.

The Khakanja processing plant uses agitated-tank cyanide leaching and the Merrill Crowe process to extract metals from ore mined at Khakanja and, in the future, Yurievskoye. The plant's production capacity was increased to 600 ktpa in 2006 by replacing the secondary and tertiary crushing circuits with a SAG mill. Initially, the tailing dam was constructed as a conventional valley-type impoundment. In 2006, a new dry-stacked tailings facility was commissioned to avoid the necessity of raising the impoundment dam as well as to improve recoveries and lower reagent consumption. The plant produces zinc precipitate which is transported to the Krasnoyarsk refinery where it is toll-processed into commercial gold and silver bars. During 2005, the recovery rates for silver and gold were 51.4% and 93%, respectively.

Production of gold at Khakanja rose from 79 thousand ounces in 2004, the mine's first year of operations, to 118 thousand ounces in 2005. During the nine months ended 30 September 2006, gold production decreased to 81 thousand ounces from the 91 thousand ounces produced in the nine months ended 30 September 2005, and is expected to decrease further in 2007, due to falling head grades. Silver production at Khakanja increased from 1.5 million ounces in 2004 to 2.4 million ounces in 2005, but during the nine months ended 30 September 2006, decreased to 1.6 million ounces from the 1.9 million ounces produced in the nine months ended 30 September 2005, also due to planned decreases in head grade at Khakanja.

Equipment, Infrastructure and Logistics

Polymetal currently uses hydraulic excavators and a front-end loader to load ore and waste from the mining face into off-highway trucks for transport to the stockpile. The trucks are standard Belorussian equipment whilst the hydraulic excavators, loaders and bulldozers are Japanese. Three Ingersoll-Rand production drill rigs are used at Khakanja. The Company expects that the underground mining operation at Khakanja will be fully mechanised with LHDs and low profile dump trucks used to transport the ore to the surface. The Company plans to use rubber-tyred long-hole production drill rigs for stoping and jumbos for underground development.

Due to the remote location of Khakanja, there is no access to the state electricity grid and as a result electric power is generated on site using six diesel generators (five operating, plus one standby). Diesel fuel is transported to the site from Okhotsk. Waste heat from the boilers is used to provide heat for buildings at the mine site. Water is supplied from local boreholes. Fuel represents a relatively higher proportion of costs at Khakanja than at other mines due to its remote location and its dependence on diesel fuel.

Fuel, consumables, and spares are delivered to Khakanja via the seasonal port of Okhotsk, approximately 100 km from the site, which is open from late May until early November. Fuel and bulk consumables are shipped to Okhotsk from the seaports of Nakhodka, Vladivostok and Pusan. Spares and materials from the river port of Khabarovsk are jointly shipped to Okhotsk with cargo from the sea port of Nikolaevsk. Upon arrival at Okhotsk, cargo is transported to the mine by company-owned truck along an all-year unpaved road. During winter, when the port is not accessible by sea, emergency spares are delivered to the mine by air from the towns of Khabarovsk or Magadan. There are hangars and open warehouses at both Okhotsk and the Khakanja mine site. The Company owns a fuel depot at Okhotsk with a storage capacity of up to 15,000 m^3, and a further on-site depot with a storage capacity of up to 2,000 m^3. There is a specialised certified cyanide storage at the mine site as well as two certified explosives storage facilities en route from Okhotsk to the mine. Cyanide at Khakanja is principally supplied by Hyosung.

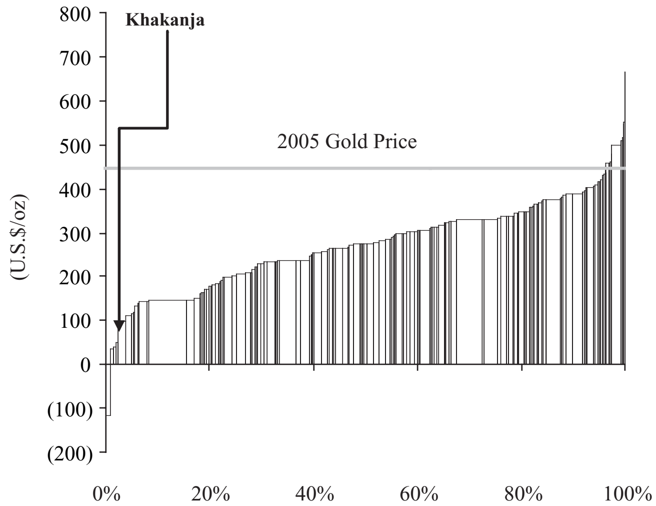
Investment Costs

The Company has budgeted a total of $29.1 million of capital expenditure over the LoM plan for Khakanja, consisting primarily of mining capital expenditure ($13.3 million). The mining capital expenditure planned is principally for the purchase of initial and replacement equipment for the open-pit ($7.7 million) and underground operations ($3.3 million). In 2003, the Company spent $18.7 million to build the Khakanja mine. In 2004, the Company spent $3.1 million to complete the processing plant at Khakanja, and in 2005 the Company spent $0.1 million to complete the filtration section of the processing plant. $2.5 million was spent in 2006 for the purchase of five dump trucks, a drill rig, a wheel dozer and an excavator for the open-pit mine. The Company has budgeted $5.2 million for the cost of the remaining equipment, comprising trucks, excavators, bulldozers, drill rigs and wheel loaders.

Cash Costs

In 2005, the GIS total cash costs for Khakanja were $64.43/oz of gold on a by-product basis and $201.67/oz of gold (and $3.58/oz of silver) on a co-product basis. A cost curve produced by GFMS ranked the Khakanja operation on a by-product basis in the first quartile of world production of gold in 2005.

2005 Total Cash Cost Curve



Source: GFMS. Presented on a by-product basis. On a co-product basis, Khakanja's cash costs were $160.26 per ounce in 2005.

The cash cost figures derived by the Company may differ from the cash cost figures used by GFMS in the preparation of their cost curves. The cost curve prepared by GFMS ranks the Company's operations on a by-product basis, and the Company's ranking may differ significantly were it to be ranked on a co-product basis.

Voro

The table below presents an overview of the Company's mining operations at the Voro deposit.

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
Ore mined (Kt)					
Open-pit	577	702	908	954	753
Underground	—	—	—	—	—
Ore milled, oxidised ore (Kt)	650	546	704	906	827
Ore milled, primary ore (Kt)	318	247	315	3	—
Processing capacity (Kt pa)	1,400	1,400	1,400	800	500
Au av. head grade, oxidised ore (g/t)	2.2	3.0	2.9	3.6	3.9
Au av. head grade, primary ore (g/t)	5.7	4.1	4.3	4.0	—
Recovery rate Au, oxidised ore	56%	56%	67%	73%	89%
Recovery rate Au, primary ore	77%	70%	70%	—	—
Au produced (Koz.)	72	53	75	78	92
Ag produced (Koz.)	50	37	56	57	63
CapEx (U.S.$mln.)	5.2	5.4	7.6	8.3	4.1
Total Cash Costs, by-product basis (U.S.$/oz. Au)	307.80	219.08	220.69	218.54	167.61
Total Cash Costs, co-product basis (U.S.$/oz. Au)	310.55	221.52	223.15	220.75	169.45

Location, Access and History

Voro is located approximately 450 km north of the city of Ekaterinburg and 20 km south of the town of Krasnoturinsk in the Sverdlovsk region of the Russian Federation. There is good access from Ekaterinburg along a federal highway.

The deposit was discovered in 1985 and comprises both oxide and sulphide mineralisation. In 1998, the Company acquired the company holding the mining licence for Voro. In 1999, the Company instituted a pilot scale project to commence mining from the oxidised ore zone. The Company commenced mining and processing of the oxidised ore at Voro in 2000, with a processing capacity of 800 ktpa. Construction of the processing facilities for treating the primary ore using carbon-in-pulp ("CIP") technology was completed in

November 2004. In 2005, processing operations for the primary (unoxidised) ore commenced at the Voro site with a capacity of 600 ktpa.

Mine Life, Geology and Mineralisation

According to the Company's current LoM plan, Voro's mine life consists of twelve years of open-pit mining (from 2006) at the north pit, including mining of oxidised ore until 2012 followed by mining of primary ore until 2018. The mine life at Voro's south pit comprises five years of open-pit mining (from 2011), mainly of oxidised ore.

The Voro deposit is a fracture zone with the main ore body dipping at approximately 40°. The ore body generally lies in the footwall of the fault. The upper 40 m of the ore body is characterised by strong oxidation making the ore amenable to heap leaching. High-grade mineralised zones within the main ore envelope are erratic in shape and distribution. Oxidised gold at Voro is mostly in free form. In primary (unoxidised) ore, gold occurs in a variety of forms including: intergrown with host rock minerals, coated with iron oxides, sulphide locked and attached to silicates. The highly variable mineralogy of primary ore requires careful selection of processing regimes and accounts for relatively low recovery rates for gold at Voro.

Mining and Processing

The Voro deposit is mined solely by open-pit mining methods and is expected to continue until the end of its mine life as an open-pit mine. Ultimately the mine design will result in the excavation of two pits: a deep pit to the north, to a depth of 240 m, and a shallow pit to the south to a depth of 80 m. A conventional truck and shovel operation is employed; drilling and blasting are used in the deep pit but are not expected to be required in the shallow pit. There is very little oxidised ore left in the deep pit so in the future heap leaching will mainly be sourced from the shallow pit and stockpiles. The mine operates continuously throughout the year and a two 11-hour shift pattern is employed on a four-day work cycle. Approximately 1,100 personnel are employed on site and are sourced from the local communities. Drilling operations at production and exploration sites are carried out by third-party contractors.

Voro processes two types of ore: primary and oxidised. For primary ore (processed using CIP technology, the plant's current designed production capacity is 600 ktpa. Following reconstruction and upgrades which the Company plans to complete during 2008, capacity is expected to increase to 940 ktpa starting in 2009. For oxidised ore (processed using heap leaching and the Merrill Crowe process), the plant's current designed production capacity is 800 ktpa. During 2005, the gold recovery rate was 66% for primary ore and 69% for oxidised ore.

Heap stacking is carried out from April to October while cyanide solutions are applied and gold is recovered year-round. Before stacking, oxidised ore is processed through two-stage crushing and agglomerated using cement. Leach pads are constructed on a solid base of clay and crushed stone with a 2 mm low density polyethylene liner to ensure full containment of cyanide-bearing solutions. The CIP plant performed below expectations in 2005 as variable ore characteristics and large amounts of clay depressed recoveries and reduced throughput due to unfavourable climatic conditions during the rainy months of February–March and November–December. In 2006, the Company modified the CIP plant to increase recovery rates by improving carbon transfer, increasing pulp aeration and introducing carbon attrition screens, among other things. Tailings from the CIP plant are filtered and dry-stacked on a lined pad preventing cyanide discharge and providing minimal disturbance of the landscape.

Production of gold at Voro fell from 92 thousand ounces in 2003 to 75 thousand ounces in 2005, with output for the nine months ended 30 September 2006 increasing to 72 thousand ounces compared with 53 thousand ounces produced during the nine months ended 30 September 2005. Decreases in gold production at Voro were due to falling head grades and recovery rates for oxidised ore and complications caused by clay content in ore processed in 2005. Production increased during 2006 following enhancements at the facility for processing primary ore, but the Company expects to incur increased costs in 2007 in connection with the high clay content of ore at Voro. Voro does not currently produce significant quantities of silver. Voro produces doré bars which are shipped for tolling treatment to third-party state-owned refineries, with the end product being commercial gold bars.

In the third quarter of 2006, the Company began construction in order to increase the capacity of the CIP plant. The Company plans to add additional capacity to process resources expected to result from the Sverdlovsk regional exploration campaign, and plans to increase production capacity at Voro to up to

940 ktpa during 2008 and 2009. The Company believes that increased throughput will be made possible by a substantial increase in ore reserves following the re-estimation of cut-off grades. In the first stage, the Company expects to replace the existing secondary and tertiary crushing circuit with a SAG mill by the end of 2007. The Company currently believes that the plant should reach its new capacity of 940 ktpa by the end of 2008 following renovation of leaching and filtering sections.

Equipment, Infrastructure and Logistics

Polymetal uses hydraulic excavators to extract oxidised ore, low-grade ore and waste from the mining face and load into off-highway haul trucks, and off-highway rigid frame trucks to haul low-grade ore and waste to stockpiles and dumps located close to the mine and to transport ore to a stockpile located adjacent to the processing plant. The trucks are manufactured by Belaz and are leased by the Company from third-parties whilst the hydraulic excavators, bulldozers and wheel loaders are supplied by international manufacturers such as Hitachi and Caterpillar. Third-party contractors perform truck loading and unloading operations and driving. Polymetal uses three Ingersoll-Rand drill rigs on site.

Electrical power at Voro is provided by the state electricity grid via powerlines from nearby towns of Krasnoturinsk and Serov. There is no standby power generation on site. The power supply is currently sufficient to support the milling carbon-in-pulp plant expansion, and the low cost of grid power makes it uneconomic to produce energy on-site from gas or coal. Voro purchases electricity from Sverdlovskenergosbyt, a regional subsidiary of RAO UES, which sells energy at a combination of regional tariffs and free market prices. The Company expects that Voro will continue to purchase energy at regulated tariffs as its power consumption and energy infrastructure are insufficient to purchase energy wholesale at free market prices. Water is supplied from local boreholes. Heat is supplied by gas-operated boilers from a major gas pipeline that runs within 2.5 km of the site.

Transportation and logistical access to Voro is provided by a railway connection with a Company-owned spur located 15 km from the site, as well as a paved highway located 8 km from the mine. Materials and spare parts are delivered by rail or directly from suppliers by truck. Fuel is delivered from various suppliers' fuel depots which are located 20-30 km from the mine. There is a certified cyanide storage facility at Voro. Explosives are delivered by truck from the local centralised warehouse located within 1 km of the mine site.

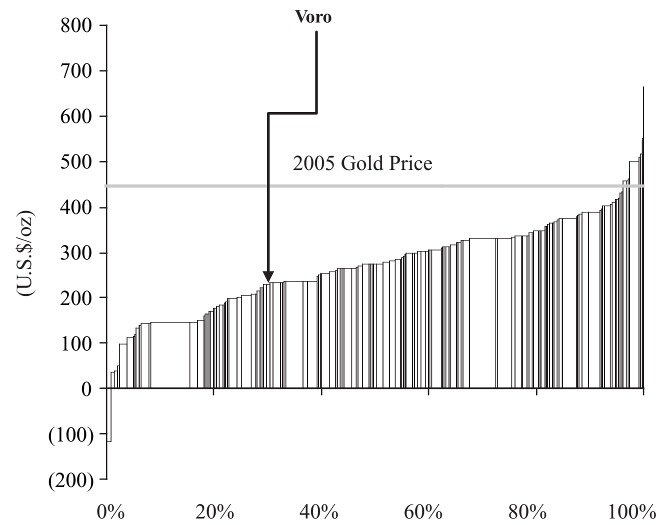
Investment Costs

The Company has budgeted approximately $38.0 million in capital expenditures over the LoM plan for Voro consisting primarily of the expansion of processing capacity at the CIP plant ($9.9 million) and mining capital expenditure ($16.2 million). The planned mining capital expenditure is principally for the purchase of additional and replacement equipment. The Company spent $11.1 million in 2004 to build the CIP processing plant at Voro. In 2005, the Company spent $1.3 million for a transportation complex and assembly work at the CIP plant, and in 2006, spent $0.6 million to build a walking dragline. In 2007, the Company plans to purchase two excavators and a drill rig.

Cash Costs

In 2005, the total GIS cash costs for Voro were $220.69/oz of gold on a by-product basis and $223.15/oz of gold (and $3.89/oz of silver) on a co-product basis. A cost curve produced by GFMS ranked the Voro operation on a by-product basis in the first half of world production of gold in 2005.

2005 Total Cash Cost Curve



Source: GFMS. Presented on a by-product basis.

The cash cost figures derived by the Company may differ from the cash cost figures used by GFMS in the preparation of their cost curves. The cost curve prepared by GFMS ranks the Company's operations on a by-product basis, and the Company's ranking may differ were it to be ranked on a co-product basis.

Strategic Alliance and Joint Venture

Proposed Strategic Alliance with AngloGold Ashanti

In September 2006, the Company entered into a preliminary agreement to establish a strategic alliance with AngloGold Ashanti, a leading international gold producer with operations on four continents. It is planned that the proposed alliance will be formed on a 50/50 basis and will pursue gold mining opportunities through exploration, development and, potentially, selected acquisitions of mining properties in Siberia and the Russian Far East, excluding regions where the Company already has established operations. Both parties will contribute assets and hold a stake equal to 50% of the proposed strategic alliance. The Company will contribute two exploration properties to the proposed strategic alliance: Anenskiy in the Krasnoyarsk Territory and APU in the Chita Region. In addition, the Company will pay approximately $12 million in cash to AngloGold Ashanti to match the value of the assets contributed by AngloGold Ashanti to the proposed strategic alliance. AngloGold Ashanti will contribute the advanced Veduga project, with approximately 2.8 million ounces of gold mineral resources, as well as the Bogunay exploration project, both of which are located in the Krasnoyarsk Territory. The assets contributed by the Company and by AngloGold Ashanti to the proposed strategic alliance are currently valued by the parties to the proposed strategic alliance at $56 million. Pursuant to the terms of the proposed strategic alliance, the parties' interests in Russia will be divided into three broad regions:

- *exclusive areas*, comprising all of Russia east of the Ural mountains except for the non-exclusive areas, within which the parties may only pursue gold mining opportunities through the proposed strategic alliance. However, should the proposed strategic alliance elect not to pursue any such opportunity, then the party that proposed and was in favour of such opportunity may pursue it outside of the proposed strategic alliance;
- *non-exclusive areas*, including the regions of Chukotka, Irkutsk, Kamchatka, Khabarovsk, Koryakia, Magadan and Sverdlovsk, within which the proposed strategic alliance imposes no restrictions on the pursuit of gold mining opportunities by the parties. However, the pursuit of gold mining opportunities through the proposed strategic alliance is also possible should both parties agree to do so; and
- *other areas*, representing the rest of Russia other than the exclusive areas and the non-exclusive areas (essentially all of Russia west of the Ural mountains), within which either party may pursue gold mining opportunities solely and independently, but not together with a third party as part of a consortium, unless the proposed strategic alliance elects not to pursue such opportunity.

Joint Venture with Mongolrostsvetmet

In December 2006, the Company formed a limited liability company with Mongolrostsvetmet in order to pursue a joint venture opportunity in Mongolia. The joint venture seeks to pursue the development of the Asgat polymetallic silver deposit in Mongolia. The Asgat deposit is located in northwest Mongolia near the Russian border, approximately 180 km from Ulgiy, the regional capital of the Nogonnurskiy region. The joint venture was formed as a Mongolian limited liability company with each party holding 50% of the share capital. The Company contributed $250,000 in cash in return for its shares in the joint venture. Mongolrostsvetmet made a contribution in kind of assets valued by the parties at $250,000, comprising certain geophysical, geological and geochemical information and data relating to the Asgat deposit and mine openings, equipment and other material assets. Pursuant to the terms of the shareholders' agreement, the Company has agreed to provide financing and operational management for the joint venture. If the joint venture commences operations, the amount of such funding is anticipated to be $4 million, $10 million and $17.5 million in 2007, 2008 and 2009, respectively.

No assurance can be given that the strategic alliance with AngloGold Ashanti or the joint venture with Mongolrostsvetmet will be established on the terms described in this Prospectus or at all, or that the strategic alliance or joint venture will be successful. The Company's strategic alliance and joint venture will be subject to various risks, see "Risk Factors—Risks Relating to the Company's Operations—The Company's proposed strategic alliance with AngloGold Ashanti, joint venture with Mongolrostsvetmet and any future partnerships or joint ventures may limit its future opportunities, may require significant resources and/or result in significant unanticipated losses, costs or liabilities".

Exploration and Development

The Company's exploration and development activities consist of stand-alone development projects, regional exploration campaigns and extensive exploration around its existing deposits. The Company's exploration portfolio includes sixteen licences covering an area of approximately 3,100 sq. km. The Company has established specialised exploration subsidiaries to conduct exploration campaigns and carry out all necessary work, including drilling, trenching, geochemical work, and sample preparation. From time to time, the Company may make acquisitions or participate in auctions to acquire properties in order to expand its exploration and development portfolio. There can be no assurance that the Company will be successful in any such auctions or acquisitions. See "Risk Factors—Risks Relating to the Company's Operations—If the Company fails to find or acquire and develop additional ore reserves, its long-term growth prospects may suffer".

The Company has exploration programmes around the Dukat, Lunnoye, Khakanja and Voro mines aimed at extending the economic life of the existing mines and finding mineral resources to supply expanding production. Through its exploration activities near existing mine sites, the Company also seeks to leverage existing infrastructure and available human resources. For a description of the Company's exploration activities at each of its operating mine sites, see "—Description of Properties and Mining Operations". The Company also expects to conduct exploration and development through its strategic alliance with AngloGold Ashanti. See "—Proposed Strategic Alliance with AngloGold Ashanti" above. There can be no assurance that any of the Company's exploration projects will result in sustainable production assets.

Stand-Alone Exploration Projects

Albazino

In July 2006, the Company purchased 100% of Resources Albazino, including the operating licence for the Albazino gold deposit in the Khabarovsk Territory, for total cash consideration of $7 million. A recent mineral resource audit conducted by Snowden estimated the indicated and inferred mineral resources to be 6,605 thousand tonnes at a grade of 5.17 g/t yielding approximately 1,098 thousand ounces of contained gold. The Albazino deposit was discovered in the 1950s, and sporadic exploration continued in the 1980s and during 2002-2003. The total licence area is 82 sq. km. The main ore zone (Anfisinskaya) is traced for 400 m along strike on the surface and up to 270 m at depth with drill holes. Ore bodies are up to 60 m wide with surface outcrops containing dips of 45-50 degrees. The ore zone is open along the strike and at depth and shows significant intersections including 7 m at 13.3 g/t, 20 m at 2.3 g/t, 60 m at 3.9 g/t and 5 m at 13 g/t. The ore consists of refractory sulphides, including pyrite and arsenopyrite. Several areas with significant surface gold geochemical anomalies exist outside the main mineralised zone and will be drill tested in the future.

Albazino is located in the remote Polina Osipenko district of the Khabarovsk Territory, approximately 500 km from the city of Khabarovsk and approximately 700 km from Khakanja. Access is from Khabarovsk by river to the seasonal port of Oglongi which is located 90 km from the site. From January to March there is also a 300 km winter road from the railway station of Solnechny. The Company believes that significant transportation synergies with Khakanja can be realised by joint handling of cargo.

Albazino is suitable for open-pit mining with a targeted capacity of up to 900 ktpa, and the Company has completed a preliminary metallurgical testwork programme which has proved the viability of conventional flotation followed by pressurised oxidation. In-house development of the complete flowsheet is currently scheduled for the third quarter of 2007. The Company is currently undertaking an extensive drilling campaign and conducting metallurgical testwork and geotechnical sampling to bring this project to a feasibility study by the third quarter of 2008. 750 m of drilling was completed during 2006. The Company believes that the existing mineral resource can be significantly expanded and is currently targeting up to 3 Moz of contained gold by 2009. The Company currently expects to start producing at Albazino in 2010.

Anenskoye

The Anenskoye project is located in the Sukhoi Buzim district of the Krasnoyarsk Territory, approximately 200 km from Krasnoyarsk and 15 km from paved roads and an energy transmission line. Anenskoye forms part of the proposed strategic alliance with AngloGold Ashanti. The site has produced more than 20 tonnes of placer gold since the 1940s. Extensive drilling on site has identified an ore body with strike length of approximately 400 m dipping at 50° and traced by drill holes to a depth of 200 m and an average width of 1.5 m at 10 g/t. The Company intends to explore additional targets within the licence area using geochemical and geophysical surveys. The Company currently expects to complete a pre-feasibility study at Anenskoye in 2007 and for the project to move to the feasibility stage during 2008.

APU (Aprelkovsko-Peshkovskiy Unit)

The APU project is located in the Balei district of Chita region, 100 km from the town of Balei along mostly unpaved all-year roads. An operating gold heap leach mine is located immediately adjacent to the property. The licence covers an area of 161.5 sq. km, and the site has been identified as highly prospective due to the discovery of porphyry-style disseminated mineralisation. In 2006, the Company evaluated the area with extensive geochemical sampling and trenching. Several mineralised targets have been identified with some trenches showing material gold grades (~1 g/t) for up to 50 m intervals. The Company plans to commence drilling on the property in the first quarter of 2007 with the aim of upgrading mineralisation to mineral resource status by the end of 2007. The Company's exploration strategy for APU comprises detailed mapping, over 2,700 m of bedrock geochemical drilling, 42,000 m^3 of trenching and approximately 5,000 m of drilling. APU is part of the proposed strategic alliance with AngloGold Ashanti.

Fevralskoye

The Fevralskoye project is located in the Sverdlovsk region, approximately 600 km from Voro and 20 km from the town of Sukhoi Log, of which 3 km are along an all-year paved road. The licensed area was home to eight shallow underground mines which exploited high-grade portions of mineralisation and produced in total approximately 10 tonnes of gold in the nineteenth and early twentieth centuries.

At Fevralskoye, geochemical and geophysical sampling along with several drill holes discovered the presence of gold in quartz veins as well as in zones of weathering and oxidation in 2002. Currently the Company is drilling several targets with the goal of confirming the potential of economic mineralisation by the end of 2007. The Company currently intends to bring Fevralskoye to the feasibility study stage in the second half of 2008.

Galka

The Galka project is located in the Karpinsk district of the Sverdlovsk region, approximately 20 km from the town of Karpinsk and 40 km from the Voro mine along all-year roads, 10 km of which are unpaved. The area was explored for copper and zinc in the 1960s with little success. The Company has identified Galka as prospective for gold and silver on the basis of information in State archives. The Company obtained an exploration licence for Galka in 2006.

The Company started drilling in the third quarter of 2006 and to date has identified three mineralised zones of 500-700 m length each on surface outcrop. Several drill holes have traced steeply dipping mineralisation to 150 m depth. Intersections vary from 9 m to 29 m in width with average grades of 2.5 g/t gold and 60 g/t silver. The upper 5-10 m of mineralised zones are oxidised with material at greater depths consisting of sulphidic non-refractory ores. The Company plans to continue drilling with the goal of upgrading mineralisation to mineral resource status by the end of 2007. Since Galka is relatively close to Voro, any oxidised material from the deposit is expected to be processed at Voro's heap leach facility starting in 2008. Sulphide material could either be processed at Voro's CIP plant or may warrant the development of a stand-alone processing plant.

Khakari

The Khakari project is located in the Okhotsk district of the Khabarovsk Territory, approximately 170 km from the Yurievskoye deposit. The area is very remote with seasonal access (December to March) along a winter road. Emergency supplies are delivered by helicopter or light aircraft (there is a landing strip adjacent to the site). Mineralisation at Khakari was discovered in the mid-1990s, and Polymetal acquired a combined production and exploration licence for the area in 2006 and conducted surface sampling in 2006. The Company has identified a mineralised zone (Krasivaya) with an outcrop of more than 400 m along strike with grades from 2 g/t to 30 g/t gold with widths ranging from 2 m to 12 m. Historic drill holes have found intercepts of up to 25 m at Au 9.1 g/t and numerous high grade rock-chips have been reported. The best intersection at the depth of 50 m is 18 m at 12 g/t. The Krasivaya zone is open both at depth and along strike.

In 2006, Polymetal also identified surface outcrops of two similar structures with surface samples having significant gold grades for 200-250 m along strike. The mineralisation is of epithermal type with free milling gold amenable to conventional cyanidation. The Company has begun drilling and currently plans to proceed to an in-house pre-feasibility study by the end of 2008. The Company considers Khakari to be a very promising project given consistently high grades in surface samples, significant strike lengths of mineralised zones on the outcrop and relatively simple metallurgy.

Regional Exploration Campaigns

Omsukchan regional programme

The Company's exploration activities in the Magadan region include its exploration licences for the Dukat Prospective Area. The regional exploration team has been assembled under the leadership of the same exploration team that discovered Lunnoye. In the third quarter of 2006, the Company was granted a licence for the Dukat Prospective Area for a 2,420 sq. km area covering roughly 70% of the Omsukchan silver belt, where Dukat, Lunnoye and Arylakh, as well as other operating mines and known deposits are located. There are numerous mineralised occurrences with significant silver content received from surface samples and rare drill holes. Significant Soviet-era exploration data is available for the Dukat Prospective Area.

The Company performed reconnaissance work in 2005 and 2006 with the aim of performing detailed geochemical surveys on selected targets in 2007 and the commencement of drilling at eight targeted sites in 2008. The Company plans to conduct full geochemical sampling and 40,000 m of drilling in the Dukat Prospective Area by 2009. The Company is currently targeting the Omsukchan region as a key part of its strategy to expand its mineral resource base by 2010. The Company is focused on the discovery of large deposits suitable for the development of stand-alone operations.

Okhotsk regional programme

The Company intends to capitalise on the excellent infrastructure assets, including a fuel depot, port warehouses, and the road to Khakanja, in order to take advantage of the vast under-explored potential of the Okhotsk district with numerous known gold and silver occurrences and, in addition to Khakanja and Yurievskoye, several smaller deposits identified during Soviet times. The Company received an exploration licence for Arkinskaya in 2006 and intends to significantly expand its licence areas in the district in 2007. At Arka, the Company plans to perform reconnaissance and geochemical work in 2007 in order to define the mineral resource potential of the area in 2008.

Sverdlovsk regional programme

In 2006 the Company received two licences for Katasminskiy and Rudnichniy, areas in the close vicinity of the Voro mine. The Katasminskiy and Rudnichniy deposits are located 20 km and 4 km from the mine site, respectively. The Company intends to expand its licensed holdings in the area as it considers the northern part of Sverdlovsk region to be of strategic importance. The Company has targeted the area for greenfield exploration effort due to historic and current prospectivity, excellent infrastructure and access to qualified personnel. The Company intends to leverage Voro's resources through these exploration efforts at Katasma and Rudnichniy. During the third quarter of 2006, the Company commenced preparations for geological exploration at the Rudnichniy site. Primary geological exploration and deep geochemical searches are currently ongoing at Katasma. The Company currently intends to start drilling at both Katasma and Rudnichniy in 2007.

Transportation and Refining

The Company's mines produce doré bars or zinc precipitate which are transported to refineries for further refining in order to produce commercial gold and silver bars. For Lunnoye and Dukat, the final on-site product is doré metal containing 94-98% of combined gold and silver. Doré is produced at the smelter adjacent to the Dukat processing plant from zinc precipitate containing metals from Dukat and Lunnoye. At Khakanja, the final on-site product is zinc precipitate containing 30-60% of combined gold and silver. The final on-site products for Voro are doré bars containing 94-98% of combined gold and silver, which are poured at the gold smelting shop at the Voro processing plant.

Each mine has a gold room equipped with special security equipment. The final on-site product is picked up from the mines by specialised agencies licensed to transport precious metals and fully insured for that purpose. The Company currently has contracts with three such agencies. Under these contracts, the Company transfers all risks of accidental loss or damage at the gate of the gold room. The agencies transport doré or zinc precipitate by truck, plane, rail or the combination thereof to the refineries. The agencies subsequently transport the commercial gold and silver bars from refineries to bank vaults. Transfer of title occurs and the point of sale is when the gold reaches the bank vault.

The Company currently has tolling contracts with three state-owned refineries (Krastsvetmet, Prioksky Plant of Non-Ferrous Metals and Uralelectromed). All of these refineries are certified under Good Delivery Standards of LBMA for both gold and silver. The tolling fee is normally determined as a fixed percentage of the metal price or as a fixed rouble amount per gramme of each metal produced. Processing losses are currently fixed in contracts at less than 0.1% for gold and less than 0.2% for silver. Gold and silver are shipped from refineries five to fifteen days after the arrival of incoming material depending on transportation arrangements and the size of batch processed.

Sales & Marketing

The Company sells gold and silver bars to Russian banks or exports them. The domestic market for gold and silver is very liquid with prices firmly tied to LBMA and discounts representing the additional transportation cost to deliver metals to the purchasers. Currently, discounts represent approximately 0.2% for gold and approximately 1.2% for silver. Gold and silver not sold to settle forward sales contracts are priced at an LBMA based price on the day after the bars are deposited in the bank's vault. Sales to Russian commercial banks are generally under one-year-term delivery contracts and are currently centralised and made through the Company, which acts in its own name as a commissioner on behalf of its subsidiaries. Payment for silver and gold is made in roubles at the prevailing exchange rate. The Company's revenues depend on the price of silver or gold, respectively. See "Risk Factors—Risks Relating to the Company's Operations—The profitability and viability of the Company's operations and the cash flows generated by its operations are affected by changes in the market price for silver and gold, which have fluctuated widely in the past" and "Operating and Financial Review".

The Company has historically sold its produced silver and gold to a small number of off-takers. The Company chooses among potential off-takers on the basis of the financing terms offered by banks in exchange for using gold and silver off-take agreements as debt collateral. In accordance with the terms of its syndicated loan financing, the Company undertook to sell certain quantities of silver under forward sale contracts during the period from 2005 to 2007 and at market prices to certain off-takers for 2008. See "Operating and Financial Review—Significant Factors Affecting the Company's Results of Operations—

Forward sales contracts for the years 2003-2005”. The table below sets forth the Company’s sales to its customers during the first nine months of 2006.

Bank	Gold (Koz.)	Revenues (U.S.$’000)	Silver (Koz.)	Revenues (U.S.$’000)
Nomos Bank	91.2	53,818	1,305	13,351
Sberbank	43.3	27,334	435	4,935
Standard Bank	32.3	19,282	11,058	94,504
Uralsib	11.4	6,606	—	—
Nikoil	6.0	3,329	—	—
Total:	184.2	110,369	12,798	112,790

In the past, a portion of the Company’s sales were direct export sales. At present, the Company has no direct export sales. Silver Territory and Magadan Silver are in the process of obtaining export licences for the direct export of silver to ABN Amro Bank N.V. in connection with financing provided by ABN Amro Bank N.V.

Competition

Whilst the Company does not experience competition for its sales, as silver and gold are worldwide commodities, it does encounter competition in identifying and acquiring exploration and development rights to attractive silver and gold mining properties in Russia. As ore reserves are depleted over time in established silver producing countries such as Mexico, Peru and Australia, and in established gold producing countries such as South Africa, Australia, the U.S. and Canada, demand for gold and silver mining properties in Russia is increasing. The Company also faces competition for the skilled mining employees and geologists who work at its properties, and competition for such employees will increase as gold and silver mining production in Russia expands.

Polymetal is the world’s fifth largest silver producer and is the leading primary producer of silver globally. As opposed to silver producers who produce silver as a by-product in the production of other metals, silver comprises the principal product of the silver mines of primary silver producers. Other leading international primary silver producers include Coeur d’Alene, Pan American Silver, Hochschild and Silver Wheaton.

In addition, Polymetal is the third largest gold producer in Russia. The Company’s principal competitors within the Russian gold industry include Polyus, Peter Hambro, Highland Gold and Buryatzoloto. Leading gold producers are generally primary gold producers.

Engineering, Research and Development

The Company benefits from its cutting-edge in-house engineering company, Polymetal Engineering. With 100 engineers, Polymetal Engineering combines detailed knowledge of and experience with Russian regulatory systems with expert understanding of global standards of engineering and the latest technological developments in mining. Polymetal Engineering utilises state-of-the-art mine optimisation software and metallurgical testing equipment to ensure the highest standards of mine design and process flowsheet development. Polymetal Engineering designs optimisation strategies which can extend the lifespan of the Company’s mines, increase productivity and enhance environmental management. Its prominence in the Russian mining industry has gained the Company several notable contracts with third-party customers, such as providing the open pit design for the Lomonosov diamond mine (Alrosa); renovating the flotation plant and pellet plant (Mikhailovsky GOK); and providing conceptual pit design services for the Russian Copper Company.

The Company engages in research and development to provide innovative technological solutions from design to operations. Original in-house technological solutions include:

- combined processing of flotation concentrate (Dukat) and ore (Lunnoye) at the Lunnoye processing plant;
- dry storage of tailings at Voro and Khakanja;
- recycling heat from diesel power station to heat the working camp and administrative buildings at Khakanja;

- roll-table mills at Khakanja, allowing a sharp drop in specific metal content in equipment under logistics and engineering-geological conditions of the building sites;
- cooling of concentrate to enable loading and transporting in soft containers at Dukat; and
- use of walking dragline to re-excavate old heaps at Voro.

When appropriate, the Company seeks to register rights to intellectual property that result from its research and development. As of 31 December 2006, the Company had obtained 22 patents for inventions.

Employees

The Group currently employs approximately 4,800 employees. Approximately 370 are employed at the Company's Saint Petersburg headquarters, approximately 560 are employed by the exploration subsidiaries and approximately 3,880 are employed by the production subsidiaries. Because of the remote locations of Lunnoye and Khakanja, staff at those mines work on a fly-in, fly-out system (meaning several weeks at a time of working at the deposit and living in the Company's settlements). In 2005, the aggregate expenditure for wages for the Company's management, mining and exploration employees was approximately $3.2 million, $24.8 million and $0.8 million, respectively; for the first nine months of 2006, the figures were $3.8 million, $16.5 million and $1.3 million, respectively. The salaries of the Company's Russian employees are higher than typical salaries in the respective regions in which the Company operates. The Company makes mandatory social security contributions for its employees but does not maintain any voluntary pension fund and has no agreement with its employees to provide pension or retirement benefits. Once in every two years, the Company reimburses the expenses of travel within Russia for mine employees based at Dukat, Lunnoye and Khakanja.

Many of Polymetal's workers are highly skilled specialists and leading experts in their fields. As of 30 September 2006, the Company employed six Ph.Ds in chemistry, ten Ph.Ds in technical sciences, four Ph.Ds in economics, four Ph.Ds in geology-mineralogy and one Ph.D in physical mathematics, as well as over 100 engineers who have completed post-graduate degrees. More than 40% of Polymetal's workforce have received higher education or professional degrees. Because the market for skilled workers is highly competitive, Polymetal concentrates on attracting and training young specialists, including offering on-the-job training and personnel rotation. More than half of the Company's employees are younger than 40, with 26% aged between 20 and 30 years of age. Polymetal believes that it is important to focus on consistently upgrading the skills of its workforce and expanding its workers' spheres of responsibility. Training occurs both on an individual basis as well as in courses, depending on licensing requirements. Such programmes include the recent launch of a corporate education centre at its Saint Petersburg headquarters and numerous outsourced education and training opportunities. Each year, 20% of Polymetal's workers pass professional preparation and training courses. During the first nine months of 2006, approximately 500 employees participated in at least one training programme. In addition, the Company launched a programme in 2005 to recognise and reward its top specialists. During 2005 and the first nine months of 2006, more than 400 employees were rewarded through this programme—which provides cash bonuses and non-monetary benefits. The Company has established several programmes for its employees, including comprehensive training and re-education projects, health and safety programmes, programmes for employees' children and other benefits.

In 2005, the Company introduced an internship programme geared towards encouraging highly-skilled university students to consider careers in metals and mining. The Company participated closely with leading educational institutions in Saint Petersburg, Ekaterinburg, Irkutsk, Tomsk, Seversk and Magadan. In 2005, 140 students from universities and colleges participated in the programme, and 103 students completed internships at the Company's production sites. During 2005, 29 university graduates accepted full-time positions at the Company, and an additional 33 people signed contracts to begin the following year.

In 2006, a trade union organisation was created at Magadan Silver. As of 31 December 2006, approximately 78 employees of Magadan Silver were members of this organisation. A commission has been set up for the preparation of a collective bargaining agreement with the employees of Magadan Silver. The trade union organisation will take part in the preparation and negotiation of this agreement. In December 2006, a trade union was created at Okhotsk Mining and Geological Company. As of 31 December 2006, 13 employees of Okhotsk Mining and Geological Company were members of this organisation. There are no other official trade union organisations within the Group, and the Company does not currently have any collective bargaining agreements with its employees. All employee-employer relationships within the Group are conducted under relevant labour laws of the Russian Federation. The Company believes that it is currently in material compliance with these laws. The Company has not to date experienced any strikes, work stoppages, collective labour disputes or actions that have had a material effect on the operations of its business, and the Company believes that it has a good relationship with its employees.

Environmental, Health and Safety

Environmental management is controlled from the Company's headquarters in Saint Petersburg by the Environmental Department. This department consists of five well-qualified specialists, who have experience in water pollution, water treatment, air quality, land management and ecology, and other environmental issues associated with mining. In addition, each of the Company's mining operations has an environmental manager whose primary responsibility is to oversee the environmental laboratories and ensure that the agreed environmental monitoring plan is executed. The qualifications and experience of these environmental managers are primarily in laboratory analysis and laboratory management rather than broader environmental issues, which are handled by the Environmental Department in Saint Petersburg.

In August 2006, SRK completed an environmental, health and safety compliance strategy audit of the Company. The results of the audit concluded that the Company was in compliance with World Bank Guidelines for sound environmental management. Polymetal has prepared an Environmental Impact Assessment Study for each of its operations during the last two to three years. The Company has also prepared an individual environmental monitoring plan for each of its operations, in accordance with Russian regulations. These documents have been approved by the relevant government agencies. See "Certain Regulatory Matters—Environmental Matters" for further description of the environmental regulations governing the Company and its environmental compliance programmes. The Company has made required emissions payments on time and in full and has faced no material fines or penalties during the last three years. The Company believes it is currently in material compliance with its obligations under applicable environmental laws and regulations.

Polymetal seeks to provide its employees with a safe working environment and regularly looks for opportunities to upgrade its health, safety and environmental policies. The Company continues to improve employee and contractor safety training and to maintain employee readiness to respond to emergencies. The Company believes that it is currently in material compliance with all health and safety regulations and laws of the Russian Federation. In 2005, the rate of total industrial injuries declined by 7% compared with 2004, and the number of serious injuries decreased by 71%. Regrettably, the Company experienced one fatality in its operations in 2006 and four in 2005, although no fatalities occurred in 2004. From 2004 to 2006, industrial accidents in the Group, as a whole, declined by 42%.

Community and Social Programmes

Many of the regions in which the Company operates are socially and economically undeveloped areas of Russia. The Company actively works with the local administrations in these regions to address some of the most pressing concerns. To maintain positive relationships with the local authorities and communities and to support the development of social infrastructure, the Company has entered into social partnership agreements with municipalities where it operates. The Company expects to sign similar agreements with the regional governments. Under these agreements, the Company organises and finances a variety of community development and humanitarian projects and has provided funds to support local hospitals, furnish equipment for schools, and finance the capital maintenance of township boiler houses.

In 2006, the Company signed an agreement with the Omsukchan regional administration to provide 20 million roubles per year over the next four years to help build and reconstruct social infrastructure, such as schools and medical clinics. The Company has also invested significant funds for development programmes in the Sverdlovsk region, including financing the construction of the first urban, multi-functional public baths in Krasnoturinsk. The Company also focuses significant attention on developing sports—and particularly youth programmes—in this region. In the Khabarovsk Territory, the Company expects to sign a social partnership agreement in 2007. In both Khabarovsk and Magadan, the Company also donated money for the construction of churches. In Okhotsk, the Company contributes to the maintenance of public roads and invests in the renovation of the port. The Company's social investment spending for the first nine months of 2006 and for 2005, 2004 and 2003 was $1.5 million, $1.8 million, $0.5 million and $0.2 million, respectively.

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance coverage common in developed markets are not yet generally available. The Company does not have full coverage for its mining, processing and transportation facilities, including insurance against fire, business interruption or for liabilities in respect of property or environmental damage arising from accidents on its property or relating to its operations. See "Risks Relating to the Company's Operations—The Company's insurance coverage may prove inadequate to satisfy future claims against it or to protect the Company against natural disasters or operational catastrophes".

The Company believes that its current insurance arrangements comply with insurance requirements under Russian law and are in line with industry practice in Russia. Under the terms of the Company's syndicated loan financing, a comprehensive insurance package—designed by AON and Marsh Brokerages—was put in place, covering both potential losses due to property damage, including damage to the principal moveable equipment used in the Company's mining operations. The Company places its insurance programme with major Russian insurance brokers, such as: Alfastrakhovanie, RESO-Garantia and Uralsib Insurance Group. In addition, each of the Company's operating subsidiaries has insurance programmes in place that correspond with the requirements of Russian legislation. These insurance policies include coverage for potential environmental contingencies.

Reporting of Ore Reserves and Mineral Resources

In 2006, the Company commissioned an audit of its silver and gold ore reserves and mineral resources located at Dukat, Lunnoye, Voro, Khakanja, Arylakh and Yurievskoye by the consultancy firm SRK. The report of SRK, which was prepared as of 30 September 2006, is included in Appendix 1: "Mineral Expert's Report". SRK examined the system of ore reserve and mineral resource classification and reporting used by the Company and compared this with the JORC Code, which is described below. SRK then derived and reported the Company's ore reserves and mineral resources at these deposits following the guidelines of the JORC Code. The mineral resource estimates for Albazino were prepared by Snowden, an independent technical expert in November 2006 in accordance with the JORC Code.

The Company reviews and updates its estimates at least annually to reflect actual production, new exploration data or developments and changes in other assumptions or parameters. The Company also regularly employs third parties to verify independently the ore reserve and mineral resource estimates. Ore reserve estimates will change from time to time to reflect mining activities, analyses of new engineering and geological data, changes in ore reserve and mineral resource holdings, modifications of mining plans or methods, changes in silver or gold prices or production costs and other factors. As a Russian mining company, Polymetal is required for certain regulatory purposes to report its reserves in accordance with the Russian resource and reserve reporting system of the State Committee on Resources, or GKZ. However, the Company intends to continue to use the JORC Code as its primary system for reporting its ore reserves and mineral resources. Resources and reserves reported under the GKZ reporting system may differ materially from resources and reserves measured under the JORC Code.

The JORC Code is one of the most widely recognised systems of ore reserve and mineral resource classification in the world. The JORC Code recognises two types of classification, ore reserves and mineral resources, based on the nature of the technical and economic evaluation carried out. Ore reserves as defined by the JORC Code are the economically mineable part of measured or indicated mineral resources. Ore reserves are designated as proved or probable and are derived from the corresponding measured and indicated mineral resource estimates by including allowances for dilution and losses during mining. In addition to geological considerations, other modifying economic, mining, metallurgical, marketing, legal, environmental, social and governmental factors are taken into account in determining the extent to which mineral resources could be converted to ore reserves.

Mineral resources are based on mineral occurrences quantified on the basis of geological data and an assumed cut-off grade, and are divided into measured, indicated and inferred categories reflecting decreasing confidence in geological and grade continuity. No allowances are included for dilution and losses during mining, but the reporting of mineral resource estimates carries the implication that there are reasonable prospects for eventual economic exploitation. Mineral resources may therefore be viewed as the estimation stage prior to the application of more stringent economic criteria used for the definition of ore reserves, such as a rigorously defined cut-off grade and mine design outlines, along with allowances for dilution and losses during mining. Under this system of reporting, it is common practice for companies to include in the mineral resource category material with a high expectation of conversion to ore reserves, but for which final technical and economic viability has not been determined.

MARKET OVERVIEW

The following information relating to the silver and gold markets has been provided for background purposes only. The information has been extracted from the sources specified at the end of the respective silver and gold market overview sections. The Company accepts responsibility for accurately reproducing such information, data and statistics but accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

Silver Market Overview

Background

Silver is a precious metal whose uses stem from its unique collection of properties comprising anti-bacterial qualities, corrosion resistance, malleability, ductility, reflectivity and conductivity. These have contributed to an increasing number of other industrial applications, in addition to its traditional uses in jewellery and photography.

Jewellery, Silverware, Mirrors and Coinage

Demand in the jewellery and silverware sectors represented about one-third of total silver consumption in 2005. Traditionally, India is a key market in this respect as jewellery is viewed as a store of wealth, and items are bought more for their intrinsic worth than as an adornment.

Coinage represents another historic use of silver. Despite higher fabrication in the U.S. and Germany, lower minting in a number of European countries, together with some weakness in China, resulted in a decline of coins and medal fabrication by 4% in 2005.

Photography

Almost one-fifth of the world's annual silver supply is consumed in photography, but approximately two-thirds of this silver is recycled from used film, fluids and paper. Recently, digital technology has rapidly gained market share from silver-halide technology though photography still represented 18% of silver demand in 2005.

Though digital photography is leading to a reduction in demand for silver in developed countries, this has been offset by strong demand for photographic products from developing countries where recycling tends to be less developed and there is very limited digital technology. X-rays account for 30% to 40% of the silver used in photography annually, and the number of X-rays taken each year is rapidly growing.

Photographic demand decreased by 9% (approximately 16 Moz) to 164.8 Moz in 2005. The bulk of the decline came from a reduction in the output of colour film. Photographic demand accounted for just 19% of fabrication demand in 2005.

Medical Applications

Silver contains anti-bacterial properties and researchers have found that silver can be used as a biocide. Burn units in hospitals use bandages that release silver ions that help with healing and reduce the need for frequent dressing changes. Further research is ongoing on the use of silver and its compounds for therapeutic uses. Silver is also used in dentistry.

Industrial Uses

The range of silver's industrial applications is immense and growing because the metal demonstrates the following characteristics:

- The highest thermal conductivity of all metals;
- The highest electrical conductivity of all metals (silver is defined as having electrical conductivity of 100 against which other metals such as copper (97) and gold (76) are measured); and
- The highest reflectivity of all metals.

The best known industrial applications are in electronics, and some examples are given below. Unlike other metals, silver does not 'spark' and so is used to make electrical contacts where there are risks from fire or explosion. Furthermore, silver has the ability to join many metals at temperatures far below their melting points and is therefore replacing tin and lead solder in many applications, having the added benefit of eliminating the use of environmentally unfriendly lead.

Batteries: Silver is utilised in batteries (typically in the form of silver oxide) where dependability is mandatory and low weight is critical, such as those for portable surgical tools, hearing aids, pacemakers and space travel.

Cabling: Silver tape is a critical component of superconductive cabling. The cabling can carry far more electrical current than conventional wire with far less resistance (and thus generating less heat) and in much smaller spaces. With these characteristics it is expected to be increasingly used in power grids in the future, particularly in towns and cities where space is at a premium and the existing power infrastructure must carry greater current loads.

Other industrial applications of the metal include: as a catalyst in the production of ethylene oxide (in the petrochemical industry) and formaldehyde (for making plastics); in mirrors and coatings to glass (owing to its reflectivity properties); and in solar energy.

Demand

Total silver fabrication demand, led by surging industrial demand, rose to its highest level in 2005 since 2001. Total silver fabrication rose by 3% in 2005, to 864.4 Moz, its highest total since 2001. Industrial fabrication contributed the most to the increase, with a sharp 11% rise (41 Moz) to record levels of 409.3 Moz. Geographically, Indian industrial fabrication of silver rose dramatically by 58% in 2005, while Japan experienced a 15% increase in the same year. In 2005, China recorded a 6% increase in industrial demand to reach 31.8 Moz while the United States exceeded 100 Moz in demand, an increase of 7% over 2004. Electrical and electronics demand, with its 10% rise globally, accounted for much of the industrial category's growth in 2005.

Despite higher silver prices, jewellery and silverware fabrication showed a modest increase in 2005, to 249.6 Moz. Much of the growth occurred in China and India. Chinese silver jewellery and silverware demand rose by 20% in 2005, to 16.4 Moz. Indian fabrication rose by 8.5% to 48.9 Moz in 2005 while North America experienced its fourth successive year of growth.

Supply

Strong growth in Mexico and Australia pushed global silver mine production to a record high in 2005, reaching 641.6 Moz, with Peru, Mexico, Australia, China and Chile the top five silver mining countries in 2005. In 2005, silver generated at primary mines increased by 8%, to reach 188.2 Moz, representing 29% of global silver production.

Supply of silver from above-ground stocks rose marginally to 222.8 Moz in 2005. The rise was due to higher producer hedging, scrap supply and government sales. Total scrap supply is estimated to have provided the market with 187.3 Moz of silver in 2005, increasing only 3% from 2004 despite the much stronger silver price. Net government sales crept up to 68.0 Moz in 2005, a 1.5 Moz increase over 2004. The share of total supply from government sales stood at 7% in 2005. The marginal growth of government sales in 2005 was the result of sales from India, which announced in 2004 that it would commence sales from its government stocks in 2005. Sales from China and Russia continued in 2005, however, last year was the first year since 1999 when China did not account for the majority of government sales.

Silver mine production in Russia in 2005, according to GFMS evaluations, was 42.2 Moz, rising 13% against the 2004 figure.

Pricing and costs

Silver is traded on the London Bullion Market, COMEX, the Chicago Board Of Trade and the Tokyo Commodity Exchange each of which establishes daily prices.

Companies that mine silver earn revenue from the silver contained in concentrates that is determined by the price of silver and the processing charges levied by smelters and/or refineries. These charges vary depending on which base metal concentrate contains the silver. Recovery from zinc concentrates is difficult, and the smelter will pay for a low percentage of the contained silver. Silver in lead concentrate is relatively easy to remove, and so lead smelters will pay for a high percentage of the contained silver, less the standard deduction for refining charges. Therefore mining companies will, to the extent possible, endeavour to recover silver with lead. Silver in copper concentrates is mainly smelted with the copper metal and is recovered from the refinery cellhouse residues; efficiency of recovery is again better than from zinc concentrates.

Markets and outlook

The silver price averaged $11.60 per ounce in 2006 (London spot average fix), compared with a low of $4.37 per ounce in 2001 in nominal terms. Silver prices started to increase in 2003, which coincided with a significant increase in mine supply that pushed the market into a much reduced physical deficit (i.e. excluding investment volumes) whereby demand has exceeded supply in 2004 and 2005. Investment demand, however, continued to drive increases in the silver price.

Sources:

(1) The Silver Institute: article entitled "Demand and Supply in 2005"

(2) The Silver Institute: Silver News: "Silver Market Shines in 2005—Silver Fabrication and Investment Demand Sharply Up" (24 May 2006); "Silver Price in 2005 Continues to Rise" (21 November 2005)

(3) World Silver Survey 2006: A Summary produced for The Silver Institute by GFMS Limited

(4) International Financial Services, London—Newsletters: January 2005 "Bullion Markets: City Business Series" and July 2006 "Commodities Trading: City Business Series"

(5) www.silverusersassociation.org

(6) Further information from Silver Institute (www.silverinstitute.org)

(7) Bloomberg

Gold Market Overview

Background

Gold has been used to store value and produce jewellery since antiquity. Gold remains a popular investment tool and is widely used in the jewellery trade. Due to its qualities of malleability, ductility, reflectivity, resistibility to corrosion and excellent thermal and electric conductivity, gold also finds use in a wide variety of industrial and medical applications.

Jewellery is by far the most important market for gold. India is currently the world's largest consumer of gold jewellery by volume, whilst the United States was the largest market by value in 2005. In addition to the more familiar rings, brooches, necklaces and earrings, gold is used as gold leaf for decoration and protection, screen printing (for example directly on to bone china, earthenware, porcelain and glass surfaces). Gold is also the key component for "liquid gold", a formulation containing up to 12% gold which is ideal for decorative application using brushes and in gold pastes used for screen printing.

Gold is also well known as a coinage metal. Apart from gold coins, gold ingots and gold bars, gold is available in many forms including pure gold and alloys as gold flakes, foil gauzes, grain, powders, sheet, sponges, tubes, wires and even single gold crystals.

Recently, gold catalysts have become increasingly useful in the chemical industry. Many other gold compounds including neutral gold halides, aurates, gold cyanides, gold oxides, phosphine gold complexes, gold hydroxides and gold nitrates are available to industrial users. Chloroauric acid is used in photography for toning the silver image.

Finally gold is a useful metal for use in electronics owing to its inert nature and other physical properties. For example, gold is used for electrical contacts, bonding wire, solder alloys and electroplating. Gold is also a useful brazing material and is used for coating space satellites, as it is a good infrared reflector and is inert.

As an alloy, gold is used extensively for dentistry in gold teeth, dental attachments, inserts and solders and is used increasingly for medical implants in eyes and ears, as well as many other medically useful wires, tubes, sheets, and foils. Disodium aurothiomalate is administered (intramuscular) as a treatment for arthritis.

Demand

Jewellery accounts for the majority of demand for gold, accounting for around 67% of total gold demand in 2005, consistently growing for the last two years by approximately 5% per year on average. Industrial demand (including dentistry, coinage and other applications) reached its highest levels in the last 5 years, accounting for roughly 14% of total gold demand.

Investment demand is difficult to assess mainly due to the lack of information regarding volumes of over-the-counter trades taking place. Gold maintains a role as an alternative asset as it tends to be inversely correlated to the U.S. dollar, providing portfolio diversification for investors. Historically when the U.S. dollar is weak, gold prices are typically higher (as it makes gold cheaper to purchase in other currencies). The strong growth in investment demand for gold in recent years has resulted in the relationship with the U.S. dollar breaking down at times. The most recent example of this relationship breakdown was the rally of the gold price in 2006 whilst the U.S. dollar experienced some stabilisation.

Supply

Since gold is virtually indestructible, all the gold that has ever been mined still exists above ground in some form or another and, theoretically, the majority of above-ground stocks could easily be mobilised. As a result of this feature, any upward spike in price is often met by the resale of above-ground stock and this is one of the reasons why the gold price is historically less volatile than the majority of other commodity prices. Consequently, the supply of gold consists of a combination of new production from mining, scrap supply, as well as existing stocks of bullion and fabricated gold. As the amounts produced in any single year constitute a very small portion of the total potential supply of gold, normal variations in current production do not necessarily have a significant impact on the supply of gold or on its price.

Above-ground stocks include gold reserves held by central banks, government bodies and supranational organisations such as the International Monetary Fund, the Bank for International Settlements and the European Central Bank ("ECB"). Central bank sales, which represented 16% of the gold supply in 2005, have become a necessary requirement for gold market liquidity in recent years. Approximately 30,630 tonnes were held by central banks and other official institutions during the first half of 2006. The basic gold market balance (fabrication less mine supply) has been in deficit for many years and has been brought into balance by disinvestment. This disinvestment is from central bank sales and selling back of coins, bars and jewellery. Physical buying in the gold market provides some demand, but it is investment demand that is key to the gold price.

During the 1990s, central banks took a more active approach to managing their gold reserves, undertaking both sales and lending. The sales (or threat of sales) by central banks put downward pressure on the gold price. These market conditions in part led to the Central Bank Gold Agreement ("CBGA") being signed in 1999 by 14 European central banks and the ECB. Under the CBGA, the relevant central banks agreed that annual sales would be limited to 400 tonnes from the end of September 1999 for five years, as well as limiting the gold lending to the market to no more than the level prevailing at the time of the announcement. The second CBGA was announced in March 2004 ahead of the end of the CBGA. The annual limit was increased to 500 tonnes for the five-year period from the end of September 2004.

GFMS estimates that at the end of 2005, above-ground stocks represented a total quantity of approximately 155,500 tonnes, of which 64% had been mined since 1950.

Mine production represents the majority of gold supply. GFMS estimates that in 2006, mine output accounted for 62% of total gold supply. Mine production fell below 2,500 tonnes in 2004 for the first time since 1997. The fall in production in 2004 was largely due to lower production in Indonesia and continuing falls in South African, Canadian and U.S. production.

In recent years, Russia has substantially increased its respective share of world gold production and in 2005 was the world's sixth largest gold producer. The increase in Russian gold production was accelerated by the liberalisation of the industry after the 1998 crisis, which encouraged local banks to lend funds to local producers. In 2005, gold output in Russia, including by-product mine production, gold recovered from scrap and gold mining totalled 5.4 million ounces (it declined 4.3% against the 2004 figure). Out of this output, gold mining accounted for 4.9 million ounces.

Pricing and costs

London is the world's largest gold trading market with trading conducted via an OTC-type format in 400 ounce gold bars with a purity of 9,950 parts per 10,000 or higher. The gold price is fixed twice daily in London (at 10:30 and 15:00) by prices derived from five fixing members of the London Bullion Market. These price fixings are used as a key indicator for gold market participants around the world. Leading futures markets are COMEX in New York, and TOCOM in Tokyo.

Market and outlook

Gold traded at a 26-year high of $725 per ounce in mid-May 2006, before falling back to around $560 per ounce, influenced by institutions divesting commodities, and since then has recovered to $635.70 as of 31 December 2006. There are a number of factors which appear supportive of future gold demand. These include investment demand for gold as a 'safe haven' driven by the renewed weakness in the U.S. dollar relating to the U.S. fiscal and current account deficits and concerns over the rising oil prices fuelling inflation. On the supply side, scrap production, like mine production, is forecast to increase moderately in the short to medium term with the market remaining in physical surplus and with increases in mine production expected to come from Latin America, Australia and the United States. In terms of supply from central bank sales, the largest holders are covered by the specified limits in the second CBGA.

Sources:

(1) GFMS Gold Survery 2006

(2) GFMS Gold market forecasts

(3) http://www.webelements.com/webelements/elements/text/Au/uses.html

(4) http://www.responsiblegold.org/role_of_gold.asp

(5) http://www.gold.org/value/markets/supply_demand/index.html

(6) Bloomberg

(7) Finfacts Ireland: "Research Claims Gold Effectively Hedges US Dollar Depreciation and Inflation" (5 July 2006)

(8) Safe Haven: 'The Divergence Between Gold and the Dollar", by Cliff Drake (23 January 2006)

(9) "Agreements on Gold" (http://www.gold.org/value/reserve_asset/agreements/index.html

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

This selected consolidated financial and other information sets forth the Company's historical consolidated financial information and other operating information as of and for the years ended 31 December 2005, 2004 and 2003 and as of 30 September 2006 and for the nine months ended 30 September 2006 and 2005. The financial information as of and for the years ended 31 December 2005, 2004 and 2003 was derived from, and should be read in conjunction with, the Company's audited consolidated financial statements included elsewhere in this Prospectus. The financial information as of 30 September 2006 and for the nine months ended 30 September 2006 and 2005 was derived from, and should be read in conjunction with, the unaudited interim financial statements included elsewhere in this Prospectus. Results of operations for the nine month period ended 30 September 2006 are not necessarily indicative of results for the full year ending 31 December 2006 or for any other interim period or for any future financial year. In the opinion of the Company's management, the interim financial data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim period.

As described in Note 3 to the audited consolidated financial statements, the consolidated balance sheets as of 31 December 2004 and the consolidated statements of income, cash flows and changes in shareholders' equity for the year ended 31 December 2004 have been restated to give effect to certain items that were incorrectly accounted for in the consolidated financial statements as previously issued.

This selected consolidated financial and other information should be read in conjunction with "Operating and Financial Review" and "Presentation of Financial and other Information".

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004 (Restated)**	**2003**
			($ in thousands)		
Consolidated income statement data					
Revenues	223,476	172,480	238,973	204,487	92,357
of which from					
sales of silver	112,790	98,240	136,520	117,695	45,609
sales of gold	110,369	72,970	100,472	85,959	45,921
Cost of sales	(117,989)	(94,321)	(137,924)	(92,850)	(55,494)
Income from mining operations	**105,487**	**78,159**	**101,049**	**111,637**	**36,863**
Exploration expenses	—	—	—	(46)	(256)
General, administrative and selling expenses	(20,977)	(15,862)	(22,397)	(15,523)	(9,516)
Other expenses, net	(7,009)	(8,998)	(11,387)	(7,099)	(4,275)
Operating income	**77,501**	**53,299**	**67,265**	**88,969**	**22,816**
Interest expense	(17,808)	(18,485)	(24,869)	(29,223)	(20,993)
Capital lease finance costs	(1,645)	(4,314)	(3,963)	(5,541)	(5,441)
Gain on partial disposal of interest in a consolidated subsidiary	—	—	—	—	13,850
Exchange gains/(losses), net	17,932	(4,629)	(6,826)	8,725	7,587
Income from continuing operations before income tax and minority interest	**75,980**	**25,871**	**31,607**	**62,930**	**17,819**
Income tax (expense)/benefit	(20,175)	(7,331)	(9,019)	(17,832)	3,163
Income from continuing operations before minority interest	**55,805**	**18,540**	**22,588**	**45,098**	**20,982**
Minority interest	(6,260)	(5,856)	(7,883)	(17,366)	(642)
Income from continuing operations	**49,545**	**12,684**	**14,705**	**27,732**	**20,340**
Discontinued operations, net of income tax					
Losses from operations of disposed subsidiaries	—	(691)	(691)	(2,839)	(6,872)
Gain on disposal of subsidiaries	—	3,585	3,585	47,551	—
Income (loss) on discontinued operations	**—**	**2,894**	**2,894**	**44,712**	**(6,872)**
Net income	**49,545**	**15,578**	**17,599**	**72,444**	**13,468**

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004 (Restated)	2003
	($ in thousands)				
Consolidated cash flow data highlights (for the period)					
Net cash provided by (used in) operating activities	8,653	26,353	82,743	37,507	(34,977)
Net cash provided by (used in) investing activities	(109,737)	43,255	(12,943)	(63,395)	(42,039)
Net cash provided by (used in) financing activities	84,072	(65,309)	(52,179)	25,168	78,314
Consolidated balance sheet data highlights (as at the period end)					
Cash and cash equivalent	3,328		18,925	1,353	1,925
Total assets	671,628		511,150	555,459	364,460
Total debt (long-term and short-term borrowings and obligations under capital lease)	396,129		304,738	353,621	304,878
Total liabilities	492,995		378,412	426,737	335,773
Total shareholders' equity	178,616		115,801	99,707	21,630
Minority interest	17		16,937	29,015	7,057

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2006	2005	2005	2004 (Restated)	2003
Non-GAAP measures, operational and other data					
Silver production *(in millions of ounces)*	13.0	13.9	18.9	17.3	9.8
Gold production *(in thousands of ounces)*	186	182	243	212	137
Average silver sales price *($ per ounce)*	8.81	7.06	7.22	6.80	4.64
Average gold sales price *($ per ounce)*	599.8	424.2	429.4	403.6	356.0
Operating income margin[(1)] *(percentages)*	34.7%	30.9%	28.1%	43.5%	24.7%
EBITDA[(2)] *($ in thousands)*	108,884	56,723	78,334	93,502	50,564
EBITDA margin[(3)] *(percentages)*	48.7%	32.9%	32.8%	45.7%	54.7%
Adjusted EBITDA[(4)] *($ in thousands)*	97,212	67,208	93,043	102,143	43,619
Adjusted EBITDA margin[(5)] *(percentages)*	43.5%	39.0%	38.9%	50.0%	47.2%
Total cash costs per ounce[(6)] ($ per ounce of silver) *(co-product basis)*	4.7	3.9	3.8	3.1	2.9
Total cash costs per ounce[(6)] ($ per ounce of gold) *(co-product basis)*	298.7	239.7	237.4	185.4	229.5
Capital expenditure *($ in thousands)*	31,734	13,403	25,124	29,595	46,660
Number of employees at the end of period	4,809	4,309	4,284	4,352	4,560

(1) Operating income margin is calculated as operating income divided by revenues.

(2) EBITDA, for any relevant period, represents income from continuing operations before income tax expense, interest expense, capital lease finance costs, depreciation, depletion, amortisation and accretion of reclamation and mine closure obligation.

The Company presents EBITDA and Adjusted EBITDA because its management considers them to be important supplemental measures of the Company's operating performance. EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Company's industry. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under US GAAP. Some of these limitations are as follows:

- EBITDA and Adjusted EBITDA do not reflect the impact of income taxes on the Company's operating performance;
- EBITDA and Adjusted EBITDA do not reflect the impact of finance expenses, which can be significant and could further increase if the Company incurs more debt, on the Company's operating performance;
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on the Company's operating performance. The assets of the Company's businesses which are being depreciated will have to be replaced in the future and such depreciation expense may approximate the cost to replace these assets in the future. By excluding this expense, EBITDA and Adjusted EBITDA do not reflect the Company's future cash requirements for these replacements; and
- Other companies in the Company's industry may calculate EBITDA and Adjusted EBITDA differently or may use them for different purposes than the Company does, limiting their usefulness as comparative measures.

The Company compensates for the above-mentioned limitations by relying primarily on its US GAAP operating results and using EBITDA and Adjusted EBITDA only supplementally. See the Company's consolidated statements of income and consolidated statements of cash flows included elsewhere in this Prospectus. EBITDA and Adjusted EBITDA are measures of the Company's operating performance that are not required by, or presented in accordance with, US GAAP. EBITDA and Adjusted EBITDA are not measurements of the Company's operating performance under US GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. In particular, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to the Company to invest in the growth of its business.

Reconciliation of EBITDA to income from continuing operations is as follows for the periods indicated:

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004 (Restated)**	**2003**
	($ in thousands)				
Income from continuing operations	49,545	12,684	14,705	27,732	20,340
Income tax expense/(benefit)	20,175	7,331	9,019	17,832	(3,163)
Interest expense	17,808	18,485	24,869	29,223	20,993
Capital lease finance costs	1,645	4,314	3,963	5,541	5,441
Amortisation, depreciation and depletion[7]	19,585	13,496	25,134	12,509	6,530
Accretion of reclamation and mine closure obligation	126	413	644	665	423
EBITDA	**108,884**	**56,723**	**78,334**	**93,502**	**50,564**

(3) EBITDA margin is calculated as EBITDA divided by revenues.

(4) Adjusted EBITDA, for any relevant period, represents income from continuing operations adjusted for income tax expense, interest expense, capital lease finance costs, depreciation and depletion, amortisation, accretion of reclamation and mine closure obligation, minority interest and foreign exchange gain or loss.

Reconciliation of Adjusted EBITDA to income from continuing operations is as follows for the periods indicated:

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004 (Restated)**	**2003**
	($ in thousands)				
Income from continuing operations	49,545	12,684	14,705	27,732	20,340
Income tax expense/(benefit)	20,175	7,331	9,019	17,832	(3,163)
Interest expense	17,808	18,485	24,869	29,223	20,993
Capital lease finance costs	1,645	4,314	3,963	5,541	5,441
Amortisation, depreciation and depletion[7]	19,585	13,496	25,134	12,509	6,530
Accretion of reclamation and mine closure obligation	126	413	644	665	423
Minority interest	6,260	5,856	7,883	17,366	642
Exchange (gains)/losses, net	(17,932)	4,629	6,826	(8,725)	(7,587)
Adjusted EBITDA	**97,212**	**67,208**	**93,043**	**102,143**	**43,619**

(5) Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenues.

(6) The Company presents the financial items "total cash costs" and "total cash costs per ounce" which have been determined using industry guidelines promulgated by the Gold Institute and are not US GAAP measures. An investor should not consider these items in isolation or as alternatives to cost of sales, operating income, income from continuing operations, net cash provided by operating activities or any other measure of financial performance presented in accordance with US GAAP. While the Gold Institute has provided definitions for the calculation of total cash costs and total production costs, the calculation of total cash costs and total cash costs per ounce may vary significantly among gold mining companies, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

(7) Includes depreciation and depletion, amortisation of intangible assets and depletion of mineral rights.

Reconciliation of cash costs

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
	($ in thousands, except as indicated)				
Cost of sales	117,989	94,321	137,924	92,850	55,494
General, administrative and selling expenses	20,977	15,862	22,397	15,523	9,516
Amortisation, depreciation, depletion and accretion of reclamation and mine closure obligation(8)	(19,711)	(13,909)	(25,778)	(13,174)	(6,953)
Total cash costs	**119,255**	**96,274**	**134,543**	**95,199**	**58,057**
Amount sold					
Gold (th.oz.)	184	172	234	213	129
Silver (th.oz.)	12,798	13,915	18,918	17,301	9,839
Total cash cost per ounce on a co-product basis					
Gold ($/oz.)	298.7	239.7	237.4	185.4	229.5
Silver ($/oz.)	4.7	3.9	3.8	3.1	2.9

(8) Includes amortisation of intangible assets, depreciation and depletion, depletion of mineral rights and accretion of reclamation and mine closure obligation.

OPERATING AND FINANCIAL REVIEW

The following discussion of the Company's financial condition and results of operations and of the material factors that the Company believes are likely to affect its financial condition and results of operations should be read in conjunction with the Company's audited consolidated financial statements and unaudited interim financial statements including, in each case, the notes thereto and the other information included elsewhere in this document. See also "Presentation of Financial and Other Information". This section presents the Company's financial condition and results of operations on a consolidated basis.

This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements".

Overview

Polymetal is a market leader in the precious metals mining industry. In 2005, the Company was the world's fifth largest producer of silver, according to GFMS, and the largest primary silver producer globally, according to CRU. During the same year, the Company was also Russia's third largest producer of gold, according to the Association of Russian Gold Producers.

At present, Polymetal actively mines at four sites: Dukat, Lunnoye, Khakanja and Voro. The operating lives of these mines range from 10 to 20 years based on current ore reserves. The Dukat and Lunnoye mines situated in the vicinity of Magadan in the Northeast of Russia are primary silver mines with significant by-product gold production. Dukat is currently the world's second largest primary silver deposit by ore reserves and the third largest silver mine by production according to data published by the Silver Institute. Khakanja, located in the Khabarovsk Territory, and Voro, situated in the Sverdlovsk region, are both gold mines. Khakanja also produces significant quantities of silver, while Voro also produces minor quantities of silver.

The Company's silver production grew at a compound annual growth rate of 273.6%, from 97 thousand ounces of silver produced in 2001 to 18.9 million ounces produced in 2005. The Company's gold production grew at a compound annual growth rate of 30.4%, from 84 thousand ounces of gold produced in 2001 to 243 thousand ounces produced in 2005. For the nine months ended 30 September 2006, the Company produced 13.0 million ounces of silver and 186 thousand ounces of gold, compared to 13.9 million ounces of silver and 182 thousand ounces of gold produced during the nine months ended 30 September 2005.

The Company's primary source of revenue is from sales of refined silver and gold. For the financial years ended 31 December 2005, 2004 and 2003, the Company's revenues were $239.0 million, $204.5 million and $92.4 million, respectively. The Company's revenues for the nine months ended 30 September 2006 and the nine months ended 30 September 2005 were $223.5 million and $172.5 million, respectively.

In addition to its four operating mines, the Company has a significant pipeline of exploration and development projects that the Company expects will facilitate its growth. In particular, the Company recently acquired the Albazino deposit in the Khabarovsk Territory to add to its current portfolio of twelve development and exploration projects. In 2006, the Company entered into a preliminary agreement to establish a joint-venture with AngloGold Ashanti, an international gold producer with operations on four continents, in order to identify, explore and develop gold mining opportunities in Russia.

Current Trading Prospects

Since 30 September 2006, the Company's silver and gold production and sales volumes have been in line with targeted levels. During the last quarter of 2006, the Company produced 4.3 million ounces of silver and 70.0 thousand ounces of gold and sold 4.3 million ounces of silver and 70.0 thousand ounces of gold, respectively. In 2006, the Company experienced a 3.9% decrease in ore mined to 2.6 million tonnes compared with ore mined in 2005. This decrease was primarily due to a 5.8% decrease in open pit mined ore to 2.1 million tonnes. At the same time, ore mined from underground operations increased 5.4% to 487.0 thousand tonnes. This increase was primarily due to higher mined volumes at the Company's flagship Dukat mine. Processed ore increased 14.5% in 2006 (compared to 2005) to reach 2.9 million tonnes. This increase was primarily due to the increase in production capacity from 500k to 600k tpa at Khakanja and expanded capacity at Voro's Stage II (primary ore) processing facility. In 2006, gold production rose 5.3%

to 256.0 thousand ounces; the Company's silver production declined 8.6% to 17.3 million ounces, due to lower average head grades at Lunnoye and Khakanja. Silver production in 2007 is currently expected to be slightly higher than in 2006, with gold production down compared to 2006, reflecting the Company's decision to target lower grade ore at Khakanja. Gold and silver prices in the last quarter of 2006 remained in line with prices for the first nine months of 2006, and the outlook for the Company's trading results for the first quarter of 2007 remains in line with the Company's expectations.

Significant Factors Affecting the Company's Results of Operations

Introduction

The Company's performance and results of operations have been and continue to be affected by a number of external factors, including, among others, the market prices of gold and silver and Russian macroeconomic trends, as well as other factors affecting the cost of sales. There are some specific factors that the Company believes have affected the Company's results of operations in the past and that the Company expects will continue to affect its results in the future. In this section, the Company sets forth certain of those material factors that have had, or should have, an effect on its results. See also "Risk Factors".

Market prices of gold and silver

The Company's revenues from silver and gold sales represented 57.1% and 42.1%, respectively, of its total revenues for the year ended 31 December 2005 and 50.5% and 49.4%, respectively, of its total revenues for the nine months ended 30 September 2006. The prices at which gold and silver are traded in the market have a material impact on the Company's results of operations and are, in turn, significantly affected by changes in global economic conditions and related industry cycles. Prices of commodities such as gold and silver can vary significantly, particularly the price of silver, which has tended to fluctuate more widely than the price of gold. Generally, producers of gold and silver are unable to determine prices by themselves. However, events such as changes in production capacity, changes in actual production, temporary price reductions or other attempts to capture market share by significant producers may have an effect on market prices. Additionally, the prices realised by producers on sales of their products can, to some extent, be affected by contractual arrangements, production levels, product quality and hedging strategies. Price variations and market cycles have historically influenced the financial results of the Company and are expected to continue to do so. For further discussion of the differences between the Company's average realised prices of silver and gold from the average London fixing prices, see "—Description of Key Operating and Financial Items—Revenues and Production".

The following table sets out high, low and average afternoon London Bullion Market fixing prices, or London fixing price, and the Company's average U.S. dollar realised price per ounce for silver and gold during the periods indicated.

	Nine months ended 30 September				Year ended 31 December					
	2006		2005		2005		2004		2003	
	Silver	Gold	Silver	Gold	Silver	Gold	Silver	Gold	Silver	Gold
High	14.94	725.00	7.57	473.25	9.22	536.50	8.29	454.20	5.97	416.25
Low	8.83	524.75	6.39	411.10	6.39	411.10	5.50	375.00	4.37	319.90
Average	11.20	600.28	7.07	431.62	7.31	444.45	6.66	409.17	4.88	363.32
Average realised price[(1)]	8.81	599.83	7.06	424.24	7.22	429.37	6.80	403.56	4.64	355.98

(1) The Company's average realised silver and gold price differs from the average London Bullion Market fixing prices as a result of (i) the maximum and minimum price limits at which the Company agreed to sell certain minimum quantities of silver and gold under certain sales contracts described below, (ii) fixed prices agreed for sales of future production entered into during the three-year period 2003-2005 and the nine months ended 30 September 2006, as described below, and (iii) the practice of the Company to sell its production at a standard discount from the London Bullion Market fixing price, calculated, subject to certain maximum limits, with regard to the quality of the metal delivered and the costs incurred by the purchasers to transport the relevant metals from the refineries to their final destination, including transportation cost, custom excise and insurance cost.

On 19 January 2007, the afternoon fixing prices for silver and gold on the London Bullion Market were \$12.72 and \$629.00 per ounce, respectively.

The following table sets forth for each of the periods indicated the total quantities of the Company's silver and gold sold subject to price limits (including fixed prices), the Company's average U.S. dollar realised price in respect of such silver and gold and the average afternoon London Bullion Market fixing price for silver and gold.

	Quantity sold subject to maximum price limit (Ounces in thousands)	(As a percentage of total amount sold in relevant period)	Average realised price in respect of quantity sold subject to maximum price limit ($ per ounce)	Average afternoon London Bullion Market fixing price ($ per ounce)
Nine months ended 30 September 2006				
Silver	7,678.62	60%	7.12	11.20
Gold[(1)]	—	—	—	600.28
Nine months ended 30 September 2005				
Silver	8,926.52	64%	7.03	7.07
Gold	48.96	28%	412.83	431.62
Year ended 31 December 2005				
Silver	11,210.28	59%	7.03	7.31
Gold	61.42	26%	412.05	444.45
Year ended 31 December 2004				
Silver	6,623.02	38%	6.97	6.66
Gold	85.70	40%	398.52	409.17
Year ended 31 December 2003				
Silver	7,640.49	78%	4.57	4.88
Gold	107.56	83%	353.54	363.32

(1) None of the Company's gold sales were subject to price limitations during 2006.

Sales of future production and price limits

In accordance with the terms of a syndicated loan agreement, described under "—Liquidity and Capital Resources—Indebtedness—Facility Agreement with ABN Amro Bank N.V.", in December 2004 each of Silver Territory and Magadan Silver entered into an export contract with ZAO Standard Bank ("ZAO SB"), acting as selling agent for the relevant subsidiary of the Company, and Standard Bank London ("Standard Bank"), pursuant to which Silver Territory and Magadan Silver agreed to sell to Standard Bank all of the precious metals they produced for the period from 1 January 2005 to 31 December 2009, with silver sales until the end of 2007 subject to price limitations. The rights and obligations of Standard Bank under these agreements were largely assumed by ABN AMRO Bank N.V. ("ABN") following the refinancing of the loan facility with Standard Bank pursuant to a loan facility entered into among, *inter alia*, ABN, Silver Territory and Magadan Silver. In particular, pursuant to the export agreements, through Silver Territory and Magadan Silver, the Company agreed:

- for each of the years 2005 and 2006, to sell a minimum of 8.1 million and 9.0 million ounces of silver, respectively, at prices fixed in the range of $6.66-$7.95 per ounce;
- for 2007, to sell a minimum of 13.9 million ounces of silver at London fixing prices, determined two business days prior to the delivery, subject to a minimum price of $6.00 per ounce and a maximum price of $8.60 per ounce;
- for 2008, to sell a minimum of 9.0 million ounces of silver at London fixing prices, determined on the second business day prior to the delivery;
- to sell for each of 2005 and 2006 a minimum aggregate quantity of 43.3 thousand and 42.4 thousand ounces of gold, respectively, at London fixing prices, determined on the next business day after delivery; and
- to provide certain discounts on its sales of silver, unless otherwise agreed by the parties, calculated as the lower of: (1) the transportation costs incurred by the relevant banks to deliver the metal from the

refineries to the market purchasers, or costs incurred as a result of substandard quality not meeting LBMA standards of quality, and (2) $0.015 per ounce for standard quality silver and $0.045 per ounce for substandard quality silver.

For the full year 2006, the Company delivered 14.9 million ounces of silver at an overall average realised price of $9.06 per ounce, including 9.0 million ounces sold at fixed prices with an average realised price of $7.14 per ounce, and 45.8 thousand ounces of gold sold at London fixing prices subject to standard discounts as agreed with Standard Bank. In 2005, the Company delivered 15.5 million ounces of silver, including 8.1 million ounces sold at fixed prices, and 46.5 thousand ounces of gold sold at London fixing prices.

Other than the agreements described above, the Company does not intend to enter into additional contracts under fixed price or similar arrangements for the sale of silver and gold, unless required to do so as part of any financing arrangements. The Company has entered into agreements with Gazprombank and Sberbank for future sales of gold and silver at London fixing prices, subject to standard discounts, pursuant to financing arrangements (see "—Liquidity and Capital Resources—Indebtedness").

Nomos Bank Sales

In connection with financing arrangements with Nomos Bank, a related party, during the four-year period 2003-2006 (see "Related Party Transactions—Loans from Nomos Bank"), through its subsidiaries, Gold of Northern Urals and Okhotsk Mining and Geological Company, the Company sold gold and silver to Nomos Bank at fixed prices (prices were fixed during a short period within each year) and market prices, subject to discounts ranging from 0.85 to 1.0% for gold and 1.5 to 2.5% for silver, as described below:

- for 2003, the Company sold 91.6 thousand ounces of gold at prices fixed in the range of $342-$375 as well as 1.0 thousand ounces of gold and 73.5 thousand ounces of silver at London fixing prices;
- for 2004, the Company sold 81.7 thousand ounces of gold at prices fixed in the range of $342.00-$417.00 per ounce as well as 1.1 thousand ounces of gold and 63.3 thousand ounces of silver at London fixing prices;
- for 2005, the Company sold 61.4 thousand ounces of gold at prices fixed in the range of $409-$417 per ounce and 2.5 million ounces of silver at $6.7 per ounce as well as 34.4 thousand ounces of gold and 56.5 thousand ounces of silver at London fixing prices; and
- for 2006, the Company sold 316.8 thousand ounces of silver at $6.5 per ounce as well as 91,160 ounces of gold and 1.0 million ounces of silver at London fixing prices.

MDM-Bank Sales

In connection with a bank loan facility provided by MDM-Bank in 2003 and 2004, through its subsidiaries Magadan Silver and Silver Territory, the Company sold gold and silver to MDM-Bank at fixed prices as described below:

- in 2003, Magadan Silver and Silver Territory sold 16.0 thousand ounces of gold at prices fixed in the range of $370-$376 per ounce subject to a discount of 0.75%-0.85% and 7.6 million ounces of silver at prices fixed in the range of $4.75-$4.86 per ounce subject to a discount of 4.0%;
- in 2004, Magadan Silver and Silver Territory sold 4.0 thousand ounces of gold at prices fixed in the range of $370-$376 per ounce subject to a discount of 0.75%-0.85% and 6.6 million ounces of silver at prices fixed at $4.75 per ounce subject to a discount of 2.92%-3.50%.

In addition, for each of 2003 and 2004, Magadan Silver and Silver Territory sold to MDM-Bank the remaining quantities of metal at London fixing prices subject to standard discounts.

For more information on how the market prices of gold and silver may affect the Company's operations also see "Risk Factors—Risks Relating to the Company's Operations—The profitability and viability of the Company's operations and the cash flows generated by its operations are affected by changes in the market price for silver and gold, which have fluctuated widely in the past". For a discussion of recent market conditions in the silver and gold market see "Market Overview". For more information on the sales of future production of the Company, see also Note 29 to the audited consolidated financial statements of the Company—Commitments and Contingent Liabilities and "Risk Factors—Risks Relating to the Company's Operations—The Company agreed to sell significant portions of its future production as a requirement of syndicated loan financing. The Company may fail to produce enough silver to satisfy its delivery obligations or may incur significant losses or lose opportunities for gains. In addition, if the Company is unable to adequately control its production costs, the Company may have to sell silver at/or below cost".

Russian macroeconomic trends

All of the Company's operations are located in Russia. As a result, Russian macroeconomic trends can significantly influence its results of operations. The table below summarises certain key macroeconomic indicators relating to the Russian economy for the periods indicated.

	Nine months ended 30 September 2006	Year ended 31 December 2005	2004	2003
GDP growth	6.9%	6.4%	7.1%	7.3%
Producer price index	115.2%	115.7%	128.3%	113.1%
Unemployment rate	7.1%	7.6%	8.2%	8.6%

Source: Federal State Statistics Service, Russia

Inflation

Russia experienced high levels of inflation in the 1990s. Inflation measured by the consumer price index increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% that year. Recently, Russia has to a large extent overcome the consequences of the 1998 financial crisis and inflation for the year ended 31 December 2005 fell to 10.9%. Despite this, the Company remains susceptible to increases in certain of its costs that are linked to the general price level in Russia, such as supplies, materials and spare parts, as well as salaries. See "Risk Factors—Risks Relating to the Company's Operations—Inflation may materially adversely affect the Company's results of operations".

Currency exchange fluctuations

While all of the Company's revenues are either denominated in, or tightly aligned with, the U.S. dollar, the majority of the Company's costs and expenses are incurred in roubles. As a result, the appreciation of the rouble against the U.S. dollar over the last few years has contributed to an increase in some of the Company's expenses when converted from roubles to U.S. dollars. See "Risk Factors—Risks Relating to the Company's Operations—The Company faces foreign exchange risks". In addition, the overwhelming majority of the Company's debt is denominated or linked to the U.S. dollar. See "—Liquidity and Capital Resources—Indebtedness".

The Russian rouble is the Company's functional currency. The U.S. dollar is the reporting currency selected by the Company for purposes of financial reporting in accordance with US GAAP. The transactions and balances in the financial statements of the Company have been translated into U.S. dollars. Consequently, assets and liabilities are translated at period closing exchange rates. Revenues, expenses, gains and losses have been translated using period average exchange rates. Translation differences resulting from the use of these exchange rates have been included as a separate component of shareholders' equity. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the Company's consolidated statement of income under "exchange gains (losses), net".

The table below sets forth the nominal RUB/U.S.$ exchange rate as at the end of the periods indicated and the average exchange rate for each period.

	Nine months ended 30 September 2006	Year ended 31 December 2005	2004	2003
	(Roubles per one U.S.$)			
Exchange rate as at the end of the period	26.78	28.78	27.75	29.45
Average exchange rate for the period	27.39	28.32	28.81	30.68

Production plan

The Company's long-term operating and financial results can also be influenced by changes in its production plan. The Company's production plan is primarily driven by the optimisation of mining of ore deposits, which may limit its ability to change its level of output and its cost structure in the event of changes in the business environment. For instance, in the event of a sudden fall in metal prices, the

Company may not be able to adjust its cost base promptly, given that geological factors (such as ore grade) or relatively limited plant capacity affect the Company's ability to change its production level in the short term.

Cost of sales

As with other silver and gold producers, the Company is unable to directly influence the price of silver and gold, and its long-term profitability is dependent, to a significant degree, upon its ability to maintain low-cost, efficient operations. The Company's cost of sales consists primarily of operating costs, mining and other taxes and depreciation and depletion. Operating costs comprise staff and energy costs, equipment spare parts and other consumables, which include explosives, chemical reagents, drill steel and utilities consumed in the production of silver and gold. Historically, staff and energy costs have represented the two most significant components of cost of sales.

Staff costs represented 18.3%, 20.3%, 19.3% and 24.3% of the Company's cost of sales for the nine months ended 30 September 2006 and for the years ended 31 December 2005, 2004 and 2003, respectively. The increases in staff costs in absolute terms have been driven in large part by increased market competition and rouble appreciation against the U.S. dollar. At the same time, the Company has partially contained the impact of increases in underlying wage levels by reducing headcount, following the increased use of outsourced services. The Company believes that there is continued upward pressure on staff costs, which will continue to have a significant effect on the Company's results of operations.

Energy costs also have steadily increased over the three-year period ended 31 December 2005 and represented 17.0%, 14.2%, 13.1% and 11.7% of the Company's cost of sales for the nine months ended 30 September 2006 and for the years ended 31 December 2005, 2004 and 2003, respectively. These increases have been driven in large part by higher oil prices, which affect diesel prices, and the rise in state-regulated electricity tariffs. The Company remains exposed to fluctuations in the prices of diesel fuel and electricity, and the Company expects further increases to continue to have a significant effect on the Company's results of operations. In particular, the Company expects that further increases in electricity costs may be significant at Voro in line with expected further increase in the state-regulated electricity tariffs.

See also "Risk Factors—Risks Relating to the Company's Operations—The Company's operating costs could increase significantly".

Capital expenditure

The Company makes regular investments in new equipment and production infrastructure in order to maintain production levels and efficiencies and to remain competitive. For instance, in the three years ended 31 December 2005 and the nine months ended 30 September 2006, the Company made significant investments for continuing the modernisation of existing plants and preparing for future production capacity increases. In future periods, in addition to replacing outdated equipment and technologies, the Company intends to allocate a substantial portion of future expenditures on a number of key projects, including the construction of railway haulage at Dukat, the construction of an underground mine at Lunnoye, the expansion of a CIP processing plant at Voro and the commissioning of a parallel grinding circuit at the Dukat mill. In addition, in the near future the Company expects to start underground mining at Dukat and Lunnoye, where open-pit mining is currently used to produce ore. As a consequence of the above, depreciation expense is expected to increase in the near future. For more information, see below "—Liquidity and Capital Resources—Capital Expenditures".

Replacement of the Company's existing reserves

The Company's long term growth model is dependent on the replacement of its ore reserves, which will decline as gold and silver are produced and reserves are depleted. Expenses on prospecting and evaluation exploration (including expenses on additional examination of ore boundary) are generally expensed as incurred; however, if upon the discovery of proved and probable reserves, the Company determines that the reserves can be economically developed, the costs of developing the property are capitalised. In the consolidated balance sheet of the Company, capitalised exploration costs are recorded under "—Property, plant and equipment". The value of mineral rights acquired is recorded on the balance sheet of the Company under "—Property, plant and equipment" and is depreciated on a yearly basis, on the basis of the remaining fair value of the asset, as ore is processed and reserves are depleted. See also below "—Critical Accounting Policies—Property Plant and Equipment". The Company's future production growth is dependent upon its success in finding or acquiring and developing additional ore reserves. In order to increase its ore reserve base, the Company has developed active geological exploration programmes at existing deposits and at newly licensed areas. Furthermore, the Company expects to carry out significant capital expenditures aimed at replacing and expanding its reserve base. For a description of the Company's programmes, see "Business—Exploration and Development" and below "—Liquidity and Capital Resources—Capital Expenditures". If such expenditures do not result in discovering economically mineable reserves, the Company may record losses and the relevant amount of expenditures, recorded on the Company's balance sheet, may be written off. Such expenditures and losses may materially affect the Company's future financial performance. See also "Risk Factors—Risks Relating to the Company's Operations—If the Company fails to find or acquire and develop additional ore reserves, the Company's long term growth prospects may suffer".

The following table sets forth the amount of the Company's estimated reserves as of 30 September 2006, presented in accordance with the JORC Code, based on a gold price of $450 per ounce and a silver price of $7 per ounce.

Ore Reserves	Tonnage	Grade			Content		
	(kt)	(Au g/t)	(Ag g/t)	(Au Eq g/t)	(Au Koz)	(Ag Koz)	(Au Eq Koz)
Proved	**36,402**	**2.6**	**244.0**	**6.3**	**3,044**	**285,626**	**7,409**
Dukat	12,779	1.1	560.7	10.1	433	230,359	4,148
Lunnoye	624	2.4	372.2	7.8	48	7,471	156
Voro	17,834	3.1	4.1	3.1	1,754	2,343	1,772
Khakanja	3,713	5.1	251.0	7.7	614	29,962	915
Arylakh	1,071	0.9	445.8	7.4	31	15,351	254
Yurievskoye	381	13.4	11.4	13.5	164	140	165
Probable	**14,134**	**1.7**	**302.2**	**6.3**	**753**	**137,351**	**2,879**
Dukat	5,827	1.2	502.9	9.3	218	94,211	1,738
Lunnoye	2,278	1.6	340.7	7.0	120	24,950	511
Voro	4,123	1.6	2.4	1.6	215	316	218
Khakanja	1,314	4.5	190.6	6.1	190	8,051	259
Arylakh	589	0.5	518.8	8.0	9	9,822	151
Yurievskoye	4	8.3	8.6	8.3	1	1	1
Total Ore Reserves	**50,537**	**2.3**	**260.3**	**6.3**	**3,797**	**422,977**	**10,288**
Dukat	18,606	1.1	542.6	9.8	651	324,570	5,885
Lunnoye	2,902	1.8	347.4	7.1	167	32,421	667
Voro	21,956	2.8	3.8	2.8	1,968	2,659	1,990
Khakanja	5,027	5.0	235.2	7.3	804	38,013	1,174
Arylakh	1,660	0.8	471.7	7.6	41	25,173	405
Yurievskoye	385	13.3	11.4	13.4	165	141	166

The following table sets forth the estimated lives of the Company's current operating mines as of the date of this prospectus.

Mine	Open-Pit	Underground
Dukat	2007-2011	2007-2026
Lunnoye(1)	2007	2008-2022
Khakanja	2007-2013	2011-2016
North Voro pit(2)	2007-2018	N.A.
South Voro pit(2)	2011-2015	N.A.
Arylakh(2)	2007-2015	N.A.
Yurievskoye(2)	2013-2015	N.A.

(1) The Company estimates that by the end of 2007 mining operations at Lunnoye will move from open pit to underground.

(2) The Company does not currently plan to conduct underground mining at this location.

Factors affecting the comparability of the periods under review

Starting operations at Khakanja deposit in October 2003

The Khakanja deposit began operating in October 2003, although the first sales of its production occurred during the first quarter of 2004. During 2004 and the first part of 2005, although the Company continued to make significant investments, the plant was operating at less than half its full capacity. As a result, the start-up of operations at Khakanja had a negative effect on the Company's results of operations during these years. Once the plant began operating at its full processing capacity of 500 thousand tonnes of ore per annum in August 2005, however, operations at Khakanja started having a positive effect on the Company's financial results. In 2005 gold production at Khakanja increased by approximately 50% to 118 thousand ounces and silver production increased by 67% to 2.4 million ounces, compared to the levels of 2004. The Company expects that in the near future the average head grade of gold and silver at Khakanja will decline and, as a result, production costs will increase. To ensure that precious metals production remains at or above 2005 levels, the Company modernised the plant and implemented new technologies and processes that are expected to improve recovery rates and to limit the expected increases in costs. In particular, during 2006, the Company made significant investment to further increase the capacity of the Khakanja plant to 600 thousand tonnes of processed ore per annum.

Opening of primary ore processing plant at Voro in November 2004

In November 2004, the Company opened a second plant at Voro in order to process primary ore and steadily transition from mining oxidised ore to mining primary ore. However, during 2005, the Company experienced unexpected technical problems and therefore was unable to achieve its plan of having the new plant operating at full capacity in its first year of operation. To address these technical problems, the Company was forced to make further investments in the plant amounting to approximately $3.7 million. In particular, the Company undertook measures to eliminate difficulties in the pre-treatment of ore resulting from the quality of the clay ore and in the performance of certain equipment arising out of existing climatic conditions. These additional, unexpected costs contributed significantly to the overall increase in the Company's cost of sales during 2005 as compared to 2004.

Sale of the Barun-Kholba mine

In December 2004, the Company sold its 70.5% equity interest in ZAO Zun Hada, a subsidiary which held licences to develop the Barun-Kholba properties, for $1.5 million. ZAO Zun Hada had suspended extraction of ore in July 2003 and had not conducted any significant operations thereafter. As ZAO Zun Hada had significant accumulated losses at the time of disposal, the Company recognised a pre-tax gain on disposal of $47.6 million in 2004. As the operations and cash flows of this subsidiary have been eliminated from the ongoing operations of the Company and the Company will not have any continuing involvement in its operations, the gain on its disposal for 2004 was reported net of the applicable income tax, as discontinued activities in the consolidated statements of operations for the years ended 31 December 2004. In addition, as at 31 December 2004, ZAO Zun Hada owed an aggregate amount of $49.4 million in principal and accrued interest to the Company under certain intra-group loans, which were repaid in June 2005 after the disposal of ZAO Zun Hada and its deconsolidation from the Company.

Acquisitions

The Company has made a number of strategic acquisitions within the past three years which it hopes will have a positive impact on its results of operations over the coming years.

Magadan Silver. In November 2004, the Company acquired the remaining 20% interest in its subsidiary Serebro Magadana, which owns the production and exploration licence for the Dukat mine from Company P.A.S. Silver (Cyprus) Ltd. The Company paid $21.2 million in cash and agreed to pay up to $22.5 million of contingent future payments. The future payments shall be made annually based on an average yearly price of silver in the range $5.5 to $10.0 per ounce, as described in Note 27 to the audited consolidated financial statements of the Company. The agreement also contains provisions for early repayment of these payments on the occurrence of certain events, such as a public share offering. In the event of public offering the Company would need to pay $10.3 million in 30 days after listing. The first instalment of $2 million was paid on 28 December 2006. The Company intends to use a portion of the proceeds of the Offering to pay half of the amounts outstanding on the purchase of this 20% interest in Serebro Magadana. See also "Use of Proceeds".

Yenisey Mining and Geological Company. In June 2006, the Company acquired from an unrelated party a 74.2% interest in ZAO Yenisey Mining and Geological Company, which holds the licence for development of properties in the Anenskiy land plot, for consideration of $2.4 million. In August 2006, the Company acquired the residual 25.8% interest in this company for $990 thousand.

Albazino. In July 2006, the Company acquired from DV-Resource LLC 100% of the share capital of Resources Albazino for $7 million. Resources Albazino holds a combined exploration and production licence for the Albazino gold deposit and adjacent territory in the Khabarovsk Territory.

Okhotsk Mining and Geological Company. In July 2006, the Company also acquired a 30.76% interest in Okhotsk Mining and Geological Company, which owns and operates the Khakanja mine, for $73.9 million. In August 2006, the Company acquired for $7.5 million the remaining 1.89% of this company. These acquisitions brought the Company's ownership interest in the Okhotsk Mining and Geological Company to 100%. See also "Related Party Transactions".

Trading with variable interest entity

The Company and its subsidiaries maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The consolidated financial statements of the Company included elsewhere in this document have been prepared from these accounting records and adjusted as necessary to comply with US GAAP.

The consolidated financial statements include the operations of all entities in which the Company directly or indirectly controls more than 50% of voting power and all variable interest entities for which the Company is determined to be the primary beneficiary. Variable interest entities are consolidated if the Company is the primary beneficiary in accordance with FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities ("FIN 46 (R)").

In January 2004, the Company entered into an agreement with Polyprom, an entity consolidated within the Group in its 2004 financial statements as a variable interest entity under the provisions of FIN 46(R), as the Company was determined to be the primary beneficiary. Under the terms of this agreement, Polyprom agreed to purchase metal produced by the Company's subsidiaries at the greater of: (i) the minimum price agreed by the parties and (ii) any market price recorded during the six months preceding each delivery.

For the year ended 31 December 2004, third-party sales of gold and silver by Polyprom accounted for $36.6 million of the Company's total revenues and Polyprom contributed $6.3 million and $4.6 million to operating income and minority interest, respectively, to the Company's consolidated results of operations. The Company also recorded deferred tax liabilities of $1.7 million for the year ended 31 December 2004 in connection with any tax claims that may be brought by Russian tax authorities for revenue from sales to Polyprom if they deem that Polyprom should have been subject to Russian income tax.

As at 31 December 2004, loans to third parties issued by Polyprom amounted to $21.5 million. As of the same date, the net assets of Polyprom were reported as minority interest in the consolidated balance sheet of the Company in the amount of $4.6 million. During 2005, Polyprom did not perform any significant operations and in November 2005, following the change in ultimate beneficial ownership of the Company, the Company discontinued its business relationship with Polyprom, which was subsequently deconsolidated. Deconsolidation of Polyprom resulted in a decrease of minority interest by $4.6 million, deferred tax liabilities by $1.7 million and loans issued to third parties by $6.3 million. See also "Risk Factors—Risks Relating to the Company's Operations—The Group may be subject to liability for back taxes and related interest and penalties as a result of certain past transactions".

Proposed strategic alliance with AngloGold Ashanti and joint venture with Mongolrostsvetmet

In September 2006, the Company announced a preliminary agreement to enter into a strategic alliance with AngloGold Ashanti. Under the terms of this proposed alliance, the Company will participate in a joint venture company, in which each party will hold a 50% interest. This proposed strategic alliance will focus on identifying, acquiring and developing gold deposits in certain regions of Russia. The Company intends to use a portion of the proceeds of the Offering, in the amount of approximately $12 million, to make payments to AngloGold Ashanti in connection with the proposed strategic alliance.

In December 2006, the Company formed a limited liability company with Mongolrostsvetmet, in which each party holds a 50% interest, in order to pursue a joint venture opportunity in Mongolia. The joint venture seeks to pursue the development of the Asgat polymetallic silver deposit in Mongolia. The

Company contributed $250,000 in cash in return for its shares in the joint venture. Mongolrostsvetmet made a contribution in kind of assets valued by the parties at $250,000. If the joint venture commences operations, it is expected that the development of the Asgat mine will be financed by the Company. At present, the amount of such funding is anticipated to be $4 million, $10 million and $17.5 million in 2007, 2008 and 2009, respectively.

The Company expects that the proposed strategic alliance with AngloGold Ashanti and the joint venture with Mongolrostsvetmet, if established, are likely to have a significant impact on its results of operations in the foreseeable future. For more information on the proposed strategic alliance and the joint venture, see "Business—Strategic Alliance and Joint Venture". See also "Use of Proceeds" and "Risk Factors—Risks Relating to the Company's Operations—The Company's proposed strategic alliance with AngloGold Ashanti, joint venture with Mongolrostsvetmet and any future partnerships or joint ventures may limit its future opportunities, may require significant resources and/or result in significant unanticipated losses, costs or liabilities".

Seasonality

Revenues generated from the Company's Voro facility are usually higher during the second half of the year, because during such period the heap leach operations conducted at the site generally yield the greatest volume of precious metals. In addition, operating cash outflows for Khakanja are highest during the second and third quarters of each year as most consumables are purchased at this time to make use of the short period at this site during which ship navigation is possible.

For Khakanja and Voro the amount of inventory is subject to seasonality. At Khakanja, a limited navigation period dictates the necessity to purchase and deliver the annual supply of spares and consumables within the second and third quarters of each year. As a result, consumables and spares inventory increases significantly up to the end of the third quarter of each year and subsequently declines steadily up to the end of the first quarter of the following year. At Voro, ore is placed on heap leach pads mostly in the second and third quarters with revenue being generated primarily in the third and fourth quarters of each year. As a result, work-in-progress inventory generally increases up to the end of the third quarter of each year and subsequently declines up to the end of the first quarter of the following year.

On a consolidated basis, the Company's inventory usually reaches its highest value towards the end of the third quarter of each year and its lowest value toward the end of the first quarter. Changes in inventory levels impact cash flows from operating activities, usually resulting in significant cash outflows during the second and third quarters of each year and significant inflows during the first and fourth quarters.

Taxation

Mining Tax

Mining tax in Russia is calculated at a tax rate of 6.0% for gold and 6.5% for silver, respectively, of the value of the doré metal produced, adjusted for recoveries below the recovery rates provided in the relevant licence agreement under which the Company operates. Except for Lunnoye, which is currently in the process of having the terms of its licence agreement amended, all of the Company's mines operate at or above the recovery indicated in their respective licence agreements. For tax purposes, the value of the final product is determined based on the prices at which gold and silver are sold by the Company in the relevant month, less refining and transporation expenses.

Therefore, given the relatively short period of time between production and sale, the amount of mining tax incurred by the Company is generally determined with regard to the revenues from the sale of gold and silver. However, the time at which the tax charges are recognised is tied to doré metal production rather than to the sale of gold and silver. Thus, the timing of the monthly tax assessments is also affected by differences in the amount of doré stored and not sold on a month-to-month basis.

Recovery of VAT

As at 30 September 2006, the Company had $50.1 million of VAT receivable on its balance sheet. In accordance with Russian tax law, the Company's sales of gold and silver are generally subject to VAT at a 0% rate. As a consequence, the Company's off-takers do not pay VAT to the Company when purchasing gold and silver and the Company may apply for reimbursements of all VAT paid to its suppliers and contractors.

For capital expenses (materials and services purchased while constructing buildings, structures, or underground tunnels and workings), from 1 January 2006, VAT reimbursement can be claimed in the month following incurrence of the expense. For expenses paid before that date, VAT can be reimbursed only after the official registration certificate for the relevant immovable fixed asset is received by the Company and the entry is made in its Russian statutory accounting books. Prior to 1 January 2006, the Company paid significant amounts of VAT relating to capital expenses for fixed assets not yet registered. These fixed assets primarily related to the expansion of the processing plant at Khakanja and the CIP processing plant at Voro which the Company expects to be registered in 2007. However, there is no assurance that the Company will receive timely payments of VAT reimbursements.

For operating expenses, the Company can file the VAT reimbursement claim with the tax authorities only after the relevant expense has been recorded under costs of sales. It usually takes approximately six months to turn the Company's inventory into cost of sales, and payment upon a reimbursement claim usually takes three to four months. As a result, in total, the Company gets VAT reimbursed for operating expenses on average eight to twelve months following incurrence of the expense.

The relevant amount of VAT paid by the Company, but not yet reimbursed to the Company, is recorded on its balance sheet as VAT receivable until it is reimbursed.

Property Tax

Property tax is charged at the rate of 2.2% on all fixed assets of the Company, including machines, mining and processing equipment, buildings, structures, and underground tunnels and workings. Property tax is not charged on leased equipment. For certain fixed assets requiring statutory registration (buildings, structures, and underground tunnels and workings) property tax is assessed only after the Company has received the official registration certificate and the relevant entry is made in its Russian statutory accounting books.

Description of Key Operating and Financial Items

The following is a description of the Company's key operating and financial items. For more information on the accounting policies on the basis of which the consolidated financial statements of the Company are prepared, see below "—Critical Accounting Policies" and the notes to the consolidated financial statements of the Company included elsewhere in this document.

Revenues and Production

The Company's revenues are derived primarily from the sale of silver and gold produced at its four operating mines (Dukat, Lunnoye, Khakanja, and Voro). Production levels, in turn, reflect the amount of ore mined, changes in average head grades, and the amount of silver and gold produced from processing.

Gold and silver sales account for substantially all of the Company's revenues. During 2005, revenues from other sources of $2 million represented less than 1% of the Company's total revenues and were mainly attributable to the services provided by Polymetal Engineering to third parties.

The following table shows the silver and gold produced at each of the Company's mines for the periods indicated, as well as the revenues generated from the sales of silver and gold produced by each mine:

	Production and sales of silver during the					Production and sales of gold during the				
	nine months ended 30 September		year ended 31 December			nine months ended 30 September		year ended 31 December		
Deposit	**2006**	**2005**	**2005**	**2004**	**2003**	**2006**	**2005**	**2005**	**2004**	**2003**
Continuing Operations										
Dukat										
Production *(thousands of ounces)*	9,495	9,679	13,415	12,076	8,646	18	18	25	24	22
Sales volume *(thousands of ounces)*	9,303	9,417	13,242	12,864	6,593	18	20	27	22	20
Revenues *($ in thousands)*	80,896	67,177	97,105	87,149	30,680	10,688	8,658	12,036	8,812	7,295
Lunnoye										
Production *(thousands of ounces)*	1,859	2,289	3,023	3,689	3,053	15	20	25	31	17
Sales volume *(thousands of ounces)*	1,755	2,447	3,129	3,247	3,172	14	21	25	32	14
Revenues *($ in thousands)*	13,608	17,665	22,762	22,690	14,584	8,594	8,647	10,983	13,197	4,743
Khakanja										
Production *(thousands of ounces)*	1,562	1,906	2,441	1,465	—	81	91	118	79	—
Sales volume *(thousands of ounces)*	1,704	2,014	2,490	1,127	0	87	82	108	76	0
Revenues *($ in thousands)*	17,920	13,144	16,251	7,449	—	51,284	35,229	47,254	30,952	—
Voro										
Production *(thousands of ounces)*	50	37	56	57	63	72	53	75	78	92
Sales volume *(thousands of ounces)*	36	37	57	63	74	65	49	74	83	95
Revenues *($ in thousands)*	366	254	402	407	345	39,803	20,436	30,199	32,998	33,883
Total production (thousands of ounces)	12,966	13,911	18,935	17,287	11,762	186	182	243	212	131
Total Sales volume *(thousands of ounces)*	12,798	13,915	18,918	17,301	9,839	184	172	234	213	129
Total revenues ($ in thousands)	112,790	98,240	136,520	117,695	45,609	110,369	72,970	100,472	85,959	45,921
Discontinued Operations										
Barun-Kholba										
Production *(thousands of ounces)*	—	—	—	—	2	—	—	—	—	6
Sales volume *(thousands of ounces)*	—	—	—	—	4	—	—	—	—	8
Revenues *($ in thousands)*	—	—	—	—	18	—	—	—	—	2,858
Total Production *(thousands of ounces)*	12,966	13,911	18,935	17,287	11,764	186	182	243	212	137
Total Sales volume *(thousands of ounces)*	12,798	13,915	18,918	17,301	9,843	184	172	234	213	137
Total Revenues *($ in thousands)*	112,790	98,240	136,520	117,695	45,627	110,369	72,970	100,472	85,959	48,779

Increases and decreases in production do not always correspond to increases and decreases in revenues. Such differences in metal production and metal sales may, for example reflect time lags during the period when the metal is transported to a refinery, where it is refined and transported to the place of delivery, which may take over a month. Such differences may also reflect seasonal delays in the transportation of produced metals to the refinery.

The Company's average realised silver and gold prices differ from the average London Bullion Market fixing prices as a result of:

- the maximum and minimum price limits at which the Company agreed to sell certain minimum quantities of silver and gold under certain sales contracts, described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver";

- the fixed prices agreed for sales of future production entered into during the three-year period 2003-2005 and the nine months ended 30 September 2006, described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver"; and
- the practice of the Company to sell its production at a standard discount from the London Bullion Market fixing price, calculated, subject to certain maximum limits, with regard to the quality of the metal delivered and the costs incurred by the purchasers to transport the relevant metals from the refineries to their final destination, including transportation cost, custom excise and insurance cost.

Cost of sales

Cost of sales includes operating costs of sales and non-operating costs of sales. The following table sets forth a breakdown of the Company's cost of sales for the periods indicated.

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004	2003
			($ in millions)		
Operating costs					
of which					
Material and spare parts	23.3	18.6	27.3	22.4	13.3
Staff costs	21.6	17.8	28.0	17.9	13.5
Energy	20.1	16.2	19.6	12.2	6.5
Services	9.4	7.4	9.3	8.9	4.3
Other	4.8	3.1	3.7	3.1	0.9
Total operating costs	**79.2**	**63.1**	**87.9**	**64.5**	**38.5**
Mining tax	12.2	10.7	13.6	9.0	5.3
Other taxes, except for income taxes	4.1	4.2	6.7	4.4	3.3
Amortisation, depreciation and depletion(1)	19.6	13.5	25.2	12.6	6.5
Accretion of reclamation and mine closure obligation	0.1	0.4	0.6	0.7	0.4
Development costs written off	0.4	—	2.5	0.2	0.6
Other costs	2.4	2.4	1.4	1.5	0.9
Total cost of sales	**118.0**	**94.3**	**137.9**	**92.9**	**55.5**

(1) Includes depreciation and depletion, amortisation of intangible assets and depletion of mineral rights.

Operating costs are the costs that the Company incurs directly in producing gold and silver and include:

- materials and spare parts, including explosives, chemical reagents, drill steel, consumables, utilities and sundry on-mine costs; the Company expects these to rise as a result of inflation, and in addition if the Company is successful in its strategy to increase production capacity and consequently production;
- staff costs, including wages of mining employees (except mining management) and fringe benefits, mainly represented by reimbursement of certain travelling costs of such employees and their families; the Company is experiencing upward pressure on these costs as competition for trained staff increases and as salaries increase as a result of inflation and continued appreciation of the rouble against the U.S. dollar;
- energy costs, including costs for electricity produced on site, through the use of diesel fuel, and purchased from third parties, as well as costs for diesel, gasoline and other fuel used for equipment and plants; the Company has experienced increasing energy costs, which may continue if oil and electricity prices rise;
- services, including transportation of movable goods and personnel, security, telecommunication and refining the metal; the Company is experiencing upward pressure on these costs as salaries increase as a result of competition and inflation and an increase in oil prices; and
- other costs, including rentals of property and equipment and mandatory mine security services; the Company expects these to rise as a result of inflation and in addition if the Company is successful in its strategy to increase production capacity and consequently production.

Non-operating costs of sales include:

- mining and other taxes (except for income tax), including mandatory social security contribution;
- depreciation of property, plant and equipment, amortisation and depletion of intangible assets, including software and mineral rights, which are calculated and accounted for using the units-of-production method based on the actual production for the year compared with total estimated proved and probable reserves (see above "—Replacement of the Company's existing reserves" and below "—Critical Accounting Policies—Property, plant and equipment");
- accretion of reclamation and mine closure obligations, representing the amount of cost attributable to the increase in present value of the future reclamation cost estimated with reference to the estimated end of the life of each mine;
- development costs written off, representing the write-off of assets accounted for as capitalised expenditures for the removal of waste/stripping costs; and
- other costs, including the cost of maintaining federal rescue teams on mining sites.

Income from mining operations

Income from mining operations represents sales revenue less cost of sales.

Operating expenses

Operating expenses include exploration expenses, general, selling and administrative expenses and other operating expenses. The following table sets forth a breakdown of the Company's operating expenses for the periods indicated.

	Nine months ended 30 September		Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
			($ in millions)		
Exploration expenses	—	—	—	0.1	0.3
General, administrative and selling expenses	21.0	15.9	22.4	15.5	9.5
Other expenses, net	7.0	9.0	11.4	7.1	4.3
Total operating expenses	**28.0**	**24.9**	**33.8**	**22.7**	**14.1**

Exploration expenses

Exploration expenses consist of investment in geological survey work at operating deposits and new exploration sites, completing the retirement of reserves at the Company's mines and actively searching for new deposits to increase the Company's potential mineral resource base.

General, administrative and selling expenses

General, administrative and selling expenses primarily consist of wages and wage taxes for the personnel at the headquarters and the general management personnel at mines; sundry headquarters costs (rent, utilities, telecom charges); property taxes in respect of the headquarters and professional services (audit, legal). In the near future, the Company expects that general, administrative and selling expenses will increase as a result of increases in wages of personnel at the headquarters.

Other expenses, net

Other expenses, net include local and regional taxes, voluntary social contributions, bank fees (arrangement fees and agency fees for bank loan facilities), business interruption insurance payments, net impact of revaluation of inventory and write-offs and impairment of fixed assets.

Operating income

Operating income is income from mining operations less all operating expenses.

Income from continuing operations before income tax and minority interest

Income from continuing operations before income tax and minority interest is operating income net of interest expense, capital lease finance costs and foreign exchange gain or loss.

Income tax expense/benefit

The Company is subject to income tax at the Russian statutory rate of 24%. However, the Company's effective tax rate may be different due to non-deductibility for tax purposes of certain expenses under Russian tax regulations (including social contribution expenses and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs). At the same time, certain gains and revenues recognised under US GAAP may represent non-taxable income (e.g., gain on disposal of subsidiary).

Minority interest

Minority interest accounts for the net income attributable to minority shareholders of subsidiaries and variable interest entities consolidated within the Company. For more information on the Company's ownership percentages in respect of its most significant subsidiaries as of the end of the periods under review, see Note 1 to the Company's financial statements.

Income from continuing operations

Income from continuing operations represents operating income net of interest expense, capital lease finance costs, exchange gain/(loss), minority interest and income tax expenses.

Income (loss) from discontinued operations

Income (loss) from discontinued operations represents losses from operations of disposed subsidiaries plus gains on disposal of subsidiaries. As the operations and cash flows of disposed subsidiaries for the year in which the relevant disposal occurred were eliminated from the ongoing operations of the Company and the Company will not have any significant continuing involvement in their operations, the results of operations of the disposed components for the year in which the relevant disposal(s) occurred, together with the gain on such disposal, are reported net of the applicable income tax as discontinued activities in the consolidated statements of operations for the year in which the relevant disposal(s) occurred.

For more details on the significant disposals of the Company's subsidiaries during the periods under review, see Note 26 to the audited consolidated financial statements and Note 24 to the unaudited interim financial statements. The following table sets forth a breakdown of the Company's income (loss) on discontinued operations for the periods indicated.

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004	2003
	($ in millions)				
Loss from operation of disposed subsidiaries	—	(0.7)	(0.7)	(2.8)	(6.9)
Gain on disposal of subsidiaries	—	3.6	3.6	47.5	—
Income (loss) on discontinued operations	—	**2.9**	**2.9**	**44.7**	**(6.9)**

Net income

Net income for each period under review is income from continuing operations net of income (loss) on discontinued operations.

Results of Operations

The following table sets forth a summary of the Company's results of operations for each of the periods indicated, and further presents such items as a percentage of the Company's revenues.

	Nine months ended 30 September				Year ended 31 December					
	2006		2005		2005		2004 (Restated)		2003	
	($ in millions, except for percentages)									
Revenues	223.5	100%	172.5	100%	239.0	100%	204.5	100%	92.4	100%
of which										
Sales of gold	110.4	49.4%	73.0	42.3%	100.5	42.1%	86.0	42.1%	45.9	49.7%
Sales of silver	112.8	50.5%	98.2	56.9%	136.5	57.1%	117.7	57.6%	45.6	49.4%
Cost of sales	(118.0)	52.8%	(94.3)	54.7%	(137.9)	57.7%	(92.9)	45.4%	(55.5)	60.1%
of which										
operating costs	(79.2)	35.4%	(63.1)	36.6%	(87.9)	36.8%	(64.5)	31.5%	(38.5)	41.7%
of which										
Material and spare parts	(23.3)	10.4%	(18.6)	10.8%	(27.3)	11.4%	(22.4)	11.0%	(13.3)	14.4%
Staff costs	(21.6)	9.7%	(17.8)	10.3%	(28.0)	11.7%	(17.9)	8.8%	(13.5)	14.6%
Energy	(20.1)	9.0%	(16.2)	9.4%	(19.6)	8.2%	(12.2)	6.0%	(6.5)	7.0%
Services	(9.4)	4.2%	(7.4)	4.3%	(9.3)	3.9%	(8.9)	4.4%	(4.3)	4.7%
Other	(4.8)	2.1%	(3.1)	1.8%	(3.7)	1.5%	(3.1)	1.5%	(0.9)	1.0%
Mining tax	(12.2)	5.5%	(10.7)	6.2%	(13.6)	5.7%	(9.0)	4.4%	(5.3)	5.7%
Other taxes, except for income taxes	(4.1)	1.8%	(4.2)	2.4%	(6.7)	2.8%	(4.4)	2.2%	(3.3)	3.6%
Amortisation, depreciation and depletion[(1)]	(19.6)	8.8%	(13.5)	7.8%	(25.2)	10.5%	(12.6)	6.2%	(6.5)	7.0%
Accretion of reclamation and mine closure obligation	(0.1)	—	(0.4)	0.2%	(0.6)	0.3%	(0.7)	0.3%	(0.4)	0.4%
Development costs written off	(0.4)	0.2%	—	—	(2.5)	1.0%	(0.2)	0.1%	(0.6)	0.6%
Other costs	(2.4)	1.1%	(2.4)	1.4%	(1.4)	0.6%	(1.5)	0.7%	(0.9)	1.0%
Income from mining operations	**105.5**	**47.2%**	**78.2**	**45.3%**	**101.1**	**42.3%**	**111.6**	**54.6%**	**36.9**	**39.9%**
Exploration expenses	—	—	—	—	—	—	(0.1)	—	(0.3)	0.3%
General, administrative and selling expenses	(21.0)	9.4%	(15.9)	9.2%	(22.4)	9.4%	(15.5)	7.6%	(9.5)	10.3%
Other expenses, net	(7.0)	3.1%	(9.0)	5.2%	(11.4)	4.8%	(7.1)	3.5%	(4.3)	4.7%
Operating income	**77.5**	**34.7%**	**53.3**	**30.9%**	**67.3**	**28.2%**	**88.9**	**43.5%**	**22.8**	**24.7%**
Interest expense	(17.8)	8.0%	(18.5)	10.7%	(24.9)	10.4%	(29.2)	14.3%	(21.0)	22.7%
Capital lease finance costs	(1.6)	0.7%	(4.3)	2.5%	(4.0)	1.7%	(5.5)	2.7%	(5.4)	5.8%
Other expenses, net	—	—	—	—	—	—	—	—	—	—
Gain on partial disposal of interest in a consolidated subsidiary	—	—	—	—	—	—	—	—	13.8	14.9%
Exchange (loss) gain, net	17.9	8.0%	(4.6)	2.7%	(6.8)	2.8%	8.7	4.3%	7.6	8.2%
Income from continuing operations before income tax and minority interest	**76.0**	**34.0%**	**25.9**	**15.0%**	**31.6**	**13.2%**	**62.9**	**30.8%**	**17.8**	**19.3%**
Income tax benefit/(expense)	(20.2)	9.0%	(7.3)	4.2%	(9.0)	3.8%	(17.8)	8.7%	3.1	3.4%
Income from continuing operations before minority interest	**55.8**	**25.0%**	**18.6**	**10.8%**	**22.6**	**9.5%**	**45.1**	**22.1%**	**20.9**	**22.6%**
Minority interest	(6.3)	2.8%	(5.9)	3.4%	(7.9)	3.3%	(17.4)	8.5%	(0.6)	0.6%
Income from continuing operations	**49.5**	**22.1%**	**12.7**	**7.4%**	**14.7**	**6.2%**	**27.7**	**13.5%**	**20.3**	**22.0%**
Income (loss) on discontinued operations	**—**	**—**	**2.9**	**1.7%**	**2.9**	**1.2%**	**44.7**	**21.9%**	**(6.9)**	**7.5%**
Net income	**49.5**	**22.1%**	**15.6**	**9.0%**	**17.6**	**7.4%**	**72.4**	**35.4%**	**13.4**	**14.5%**

(1) Includes depreciation and depletion, amortisation of intangible assets and depletion of mineral rights.

Nine Months Ended 30 September 2006 Compared to the Nine Months Ended 30 September 2005

Revenues

During the nine months ended 30 September 2006, revenues increased by 29.6%, from $172.5 million for the nine months ended 30 September 2005 to $223.5 million for the nine months ended 30 September 2006. The increase in revenues was mainly due to higher precious metals prices and a slight increase in volume of gold sales. During each of the nine months ended 30 September 2006 and 2005, silver sales represented more than half of the Company's sales revenues, although in the nine months ended 30 September 2006 the relative contribution of silver sales decreased compared to the same period in 2005. In particular, for the nine months ended 30 September 2006 and 2005, silver sales accounted for 50.5% and 56.9% of the Company's total revenues and gold sales accounted for 49.4% and 42.3%, respectively. The remaining revenues were mainly represented by sales of services attributable to Polymetal Engineering to third parties.

The following table sets forth details of the Company's sales of silver and gold for the periods indicated, as well as the amount of revenues generated by sales of these metals.

	Nine months ended 30 September 2006			Nine months ended 30 September 2005			
	Thousand ounces	Average realised price ($ per ounce)	Revenues ($ in thousands)	Thousand ounces	Average realised price ($ per ounce)	Revenues ($ in thousands)	Change in revenues (in percentages)
Silver	12,798	8.8	112,790	13,915	7.1	98,240	14.8
Gold	184	599.8	110,369	172	424.2	72,970	51.3

Sales of Silver

During the nine months ended 30 September 2006, silver sales increased by 14.8%, from $98.2 million for the nine months ended 30 September 2005 to $112.8 million for the nine months ended 30 September 2006 as a result of higher silver prices, as discussed below. The volume of silver sold in the nine months ended 30 September 2006 decreased by 7.9% to 12.8 million ounces from 13.9 million ounces for the nine months ended 30 September 2005.

During the nine months ended 30 September 2006, the average London fixing price for silver increased by 58.4% from $7.07 per ounce in the nine months ended 30 September 2005 to $11.20 per ounce in the nine months ended 30 September 2006. During the same period, Polymetal's average realised sales price for silver increased by 24.8% from $7.06 per ounce in 2005 to $8.81 per ounce in 2006. For the nine months ended 30 September 2006, the lower average price realised by the Company, compared to the average London fixing price, was attributable to the lower average price of $7.12 per ounce, realised by the Company in respect of 60.0% of its total silver sales, which were subject to minimum and maximum price limitations or fixed prices under the sales of future production described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver". For the nine months ended 30 September 2005, the Company realised an average price of $7.03 per ounce while the average London fixing price was $7.07 per ounce. For the nine months ended 30 September 2006, the average price realised by the Company over its total silver sales reflected an aggregate difference from London fixing prices of $32.6 million, compared with $0.8 million for the same period in 2005. The substantial increase in the aggregate difference from London fixing prices for silver sales for the nine months ended 30 September 2006 reflects the effects of the sales under fixed price contracts as discussed above, and the significantly higher London fixing prices, as well as standard discounts in connection with transportation which remained essentially unchanged from the levels for the same period in 2005.

The decrease in volume of silver sold resulted primarily from decreased silver production, which dropped by 6.5% to 13.0 million ounces in the nine months ended 30 September 2006 from 13.9 million ounces in the nine months ended 30 September 2005, as further decreases in production took place primarily at Lunnoye and Khakanja due to lower silver grades. In particular, silver production recorded at Lunnoye decreased by 17.4% from 2.3 million ounces produced for the nine months ended 30 September 2005 to 1.9 million ounces produced for the nine months ended 30 September 2006. Silver production at Khakanja decreased by 15.8% from 1.9 million ounces produced for the nine months ended 30 September 2005 to 1.6 million ounces produced for the nine months ended 30 September 2006. Production of silver at Dukat for the nine months ended 30 September 2006 declined slightly to 9.5 million ounces from 9.7 million ounces from the output for the nine months ended 30 September 2005. For the nine months ended 30 September 2006, Dukat, Khakanja, Lunnoye and Voro accounted for 73.2%, 12.1%, 14.3% and 0.4%, respectively, of the Company's silver production and for the nine months ended 30 September 2005, they accounted for 69.5%, 13.6%, 16.6% and 0.3%, respectively, of the Company's silver production.

Sales of Gold

During the nine months ended 30 September 2006, gold sales increased by 51.3%, from $73.0 million for the nine months ended 30 September 2005 to $110.4 million for the nine months ended 30 September 2006, primarily as a result of the increased gold prices. The volume of gold sold in the nine months ended 30 September 2006 increased by 7.0% to 184 thousand ounces from 172 thousand ounces for the nine months ended 30 September 2005.

During the nine months ended 30 September 2006, the average London fixing price for gold increased by 39.1% from $431.62 per ounce in the nine months ended 30 September 2005 to $600.28 per ounce in the first nine months of 2006. Polymetal's average realised sales price for gold increased by 41.4% from $424.24 per ounce in the nine months ended 30 September 2005 to $599.83 per ounce in the nine months ended 30 September 2006. For the nine months ended 30 September 2005, the lower average price realised by the Company, compared to the average London fixing price, was attributable to the lower average price of $412.83 per ounce, realised by the Company in respect of 28.4% of its total gold sales, which was subject to fixed prices under forward sales contracts described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver". For the nine months ended 30 September 2006, in the absence of sales subject to fixed prices, the Company realised an average price substantially in line with the average London fixing price, subject to the discount offered by the Company to partially compensate its customers for their costs to transport the metal from the refinery to the final destination. For the nine months ended 30 September 2006 and 2005, the average price realised by the Company over its total gold sales reflected an aggregate difference of $0.8 million and $2.3 million, respectively, from the London fixing prices, reflecting the impact of sales at fixed prices in 2005.

The volume of gold sold in the nine months ended 30 September 2006 increased as a result of a decrease in inventory in connection with acceleration of the processing and refinery cycle and a slight increase in the levels of gold production, which grew by 2.2% from 182 thousand ounces in the nine months ended 30 September 2005 to 186 thousand ounces in the nine months ended 30 September 2006, mainly as a result of increased production at Voro.

In particular, the 35.8% increase in gold production recorded at Voro, mainly due to increased plant capacity and production, which increased from 53 thousand ounces produced for the nine months ended 30 September 2005 to 72 thousand ounces produced for the nine months ended 30 September 2006, was partially offset by the 11.0% decrease in production at Khakanja as a result of lower grade ore, from 91 thousand ounces in the nine months ended 30 September 2005 to 81 thousand ounces in the nine months ended 30 September 2006, and the 25.0% decrease in production at Lunnoye as a result of lower grade ore, from 20 thousand ounces in the nine months ended 30 September 2005 to 15 thousand ounces in the nine months ended 30 September 2006. Gold production at Dukat remained constant from the nine months ended 2005 to the nine months ended 2006, with 18 thousand ounces produced in each period. For the nine months ended 30 September 2006, Dukat, Khakanja, Lunnoye and Voro accounted for 9.7%, 43.5%, 8.1% and 38.7%, respectively, of the Company's gold production and for the nine months ended 30 September 2005, they accounted for 9.9%, 50.0%, 11.0% and 29.1%, respectively, of its gold production.

Cost of sales

In the nine months ended 30 September 2006, total cost of sales increased by 25.1% to $118.0 million, from $94.3 million for the nine months ended 30 September 2005. As a percentage of revenues, cost of sales decreased from 54.7% in the nine months ended 30 September 2005 to 52.8% in the nine months ended 30 September 2006. The increase in cost of sales was mainly due to increased operating costs, driven by the increase in staff costs and energy, as well as increase in amortisation, depreciation and depletion. Appreciation of the Russian rouble against the U.S. dollar and an inflation rate of 7.2% during the nine months ended 30 September 2006 contributed to an overall increase in costs.

The table below sets forth information related to the Company's cost of sales for the periods indicated.

	Nine months ended 30 September				Change
	2006		2005		
	($ in millions, except percentages)				(in percentages)
Operating costs					
of which					
Material and spare parts	23.3	19.7%	18.6	19.7%	25.3
Staff costs	21.6	18.3%	17.8	18.9%	21.3
Energy	20.1	17.0%	16.2	17.2%	24.1
Services	9.4	8.0%	7.4	7.8%	27.0
Other	4.8	4.1%	3.1	3.3%	54.8
Total operating costs	**79.2**	**67.1%**	**63.1**	**66.9%**	**25.5**
Mining tax	12.2	10.4%	10.7	11.4%	14.0
Other taxes, except for income taxes	4.1	3.5%	4.2	4.4%	(2.4)
Amortisation, depreciation and depletion(1)	19.6	16.6%	13.5	14.3%	45.2
Accretion of reclamation and mine closure obligation	0.1	0.1%	0.4	0.4%	(75.0)
Development costs written off	0.4	0.3%	—	—	—
Other costs	2.4	2.0%	2.4	2.6%	—
Total cost of sales	**118.0**	**100%**	**94.3**	**100%**	**25.1**

(1) Includes depreciation and depletion, amortisation of intangible assets and depletion of mineral rights.

Operating costs

For the nine months ended 30 September 2006 total operating costs increased by 25.5% to $79.2 million from $63.1 million for the nine months ended 30 September 2005.

For the nine months ended 30 September 2006, costs on material and spare parts increased by 25.3%, compared to the previous year, mainly due to increased mining activities and processing operation, including processing costs incurred in respect of the Voro CIP plant and the increase in ore milled at Khakanja and Dukat, as well as inflation.

For the nine months ended 30 September 2006, energy costs increased significantly by 24.1% to $20.1 million from $16.2 million over the same period in 2005, as a result of higher energy prices generally, rouble appreciation and increased consumption attributable to higher production levels, including the ramp up in production at Khakanja starting in August 2005. Costs related to contractor services increased 27.0% for the period ended 30 September 2006 over the same period in 2005. This increase was driven by increased transportation for ore and concentrates at Dukat and Voro, which, in turn, led to a significant increase in transportation and refinery expenses for these mines.

For the nine months ended 30 September 2006, staff costs increased by 21.3% to $21.6 million from $17.8 million for the nine months ended 30 September 2005. This increase was mainly due to the growth in workers' wages (which increased across the Company's producing deposits by 17.4% in rouble terms). This growth in wages resulted from increased market competition for qualified labour in the Far East of Russia, rouble inflation and appreciation of the rouble against the U.S. dollar.

Non-operating costs

For the nine months ended 30 September 2006, mining tax increased by $1.5 million, or 14.0%, to $12.2 million from $10.7 million for the nine months ended 30 September 2005. This increase was mainly due to increased market prices for gold and silver. Other taxes, except for income taxes decreased by 2.4% to $4.1 million from $4.2 million for the nine months ended 30 September 2005.

For the nine months ended 30 September 2006, amortisation, depreciation and depletion increased by 45.2%, to $19.6 million from $13.5 million for the nine months ended 30 September 2005. This increase resulted primarily from increased ore extraction. For the nine months ended 30 September 2006, depletion of mineral rights increased by $4.3 million to $4.8 million from $0.5 million in the nine months ended 30 September 2005 as a result of mineral rights acquired in 2006 and in last quarter of 2005.

For the nine months ended 30 September 2006 accretion of reclamation and mine closure obligation decreased to $0.1 million from $0.4 million for the nine months ended 30 September 2005 due to the increase in life of Dukat and Lunnoye mines which lowered the present value of closure obligations. For the nine months ended 30 September 2006 development costs written off increased to $0.4 million. Other costs remained relatively stable at $2.4 million.

Income from mining operations

In the nine months ended 30 September 2006, the Company's income from mining operations rose by 34.9%, from $78.2 million in the nine months ended 30 September 2005 to $105.5 million, as a result of higher revenues that outpaced the growth in cost of sales in the nine months ended 30 September 2006. The following table sets forth information relating to the Company's income from mining operations:

	Nine months ended 30 September		
	2006	**2005**	**Change**
	($ in millions, except percentages)		**(in percentage)**
Revenues	223.5	172.5	29.6
Cost of sales	(118.0)	(94.3)	25.1
Income from mining operations	**105.5**	**78.2**	**34.9**
Income from mining operations margin(1)	**47.2%**	**45.3%**	

(1) Income from mining operations margin is calculated as income from mining operations divided by revenues.

Operating expenses

For the nine months ended 30 September 2006, operating expenses increased by 12.4% from $24.9 million for the nine months ended 30 September 2005 to $28.0 million for the nine months ended 30 September 2006. The increase in operating expenses was mainly attributable to a significant increase in general, administrative and selling expenses, partially offset by a decrease in other expenses, net. The following table sets forth information regarding the Company's operating expenses for the periods indicated:

	Nine months ended 30 September		
	2006	**2005**	**Change**
	($ in millions)		**(in percentage)**
General, administrative and selling expenses	21.0	15.9	32.1
Other expenses, net	7.0	9.0	(22.2)
Total operating expenses	**28.0**	**24.9**	**12.4**

The Company's general, administrative and selling expenses increased by 32.1% for the nine months ended 30 September 2006 to $21.0 million from $15.9 million for the nine months ended 30 September 2005. This increase was largely due to rising salaries for qualified personnel at the Company's head office, an increase in professional fees incurred in connection with the Offering and the strengthening of the rouble against the dollar. Other expenses, net decreased by 22.2% for the nine months ended 30 September 2006 to $7.0 million from $9.0 million for the nine months ended 30 September 2005.

Operating income

For the nine months ended 30 September 2006, operating income increased by $24.2 million, or 45.4%, to $77.5 million from $53.3 million for the nine months ended 30 September 2005, primarily as a result of the increase in revenues.

Income from continuing operations before income tax and minority interest

Income from continuing operations before income tax and minority interest increased by 193.4% to $76.0 million for the nine months ended 30 September 2006 from $25.9 million for the nine months ended 30 September 2005. The following table sets forth information regarding the Company's income from continuing operations before income tax and minority interest for the periods indicated.

	Nine months ended 30 September		
	2006	2005	Change
	($ in millions)		(in percentages)
Operating income	77.5	53.3	45.4
Interest expense	(17.8)	(18.5)	(3.8)
Capital lease finance costs	(1.6)	(4.3)	(62.8)
Exchange (loss) gain, net	17.9	(4.6)	489.1
Income from continuing operations before income tax and minority interest	**76.0**	**25.9**	**193.4**

Interest expense decreased by 3.8% from $18.5 million in the nine months ended 30 September 2005 to $17.8 million in the nine months ended 30 September 2006. This slight decrease was mainly attributable to the drop in the average interest rate during the period. Capital lease finance costs decreased by $2.7 million from $4.3 million for the nine months ended 30 September 2005 to $1.6 million for the nine months ended 30 September 2006 due to a reduction in the number of active leasing contracts. For the nine months ended 30 September 2006, the Company recorded an exchange gain of $17.9 million, compared to an exchange loss of $4.6 million for the nine months ended 30 September 2005 resulting primarily from fluctuations in the rouble/dollar exchange rate and its impact on the rouble value of the Company's U.S. dollar-denominated debt. As the rouble is the Company's functional currency and most of its debt is dollar denominated, a falling rouble generally leads to exchange losses while a strengthening rouble leads to exchange gains. Because the Company has significant amounts of U.S. dollar-denominated debt, significant appreciation of the rouble may lead to significant exchange gains, which is not related to the Company's operational performance.

Income tax expense

Income tax expense increased by 176.7% to $20.2 million for the nine months ended 30 September 2006 from $7.3 million for the nine months ended 30 September 2005, due to the increase in income before tax. The effective tax rate was higher than the statutory tax rate due to non-deductible expenses.

Minority interest

Minority interest increased by 6.8% to $6.3 million for the nine months ended 30 September 2006 from $5.9 million for the nine months ended 30 September 2005 due to the increase of net profit in subsidiaries, where minority interests exist.

Income from discontinued operations

For the nine months ended 30 September 2005 the Company had losses from operations of disposed subsidiaries of $0.7 million and a gain on disposal of subsidiaries of $3.6 million resulting from the sales in September 2005 of its 100% shareholding in Kurilskaya GGK, a subsidiary holding the licence for development of the Prasolovskoye field, its 100% stake in Olginskaya GGK, a subsidiary holding the licence for development of the Olginskaya gold prospective area, its 100% stake in Imitzoloto, a subsidiary holding the licence for development of the Aprelkovsko-Peshkovskiy ore cluster and its 50% stake in Yeniseiskaya Investment Company. During the nine months ended 30 September 2006, the Company had no discontinued operations.

Net income

For the reasons set forth above, net income increased by $33.9 million, from $15.6 million for the nine months ended 30 September 2005 to $49.5 million for the nine months ended 30 September 2006.

Year Ended 31 December 2005 Compared to the Year Ended 31 December 2004

Revenues

During the year ended 31 December 2005, revenues increased by 16.9%, from $204.5 million for the year ended 31 December 2004 to $239.0 million for the year ended 31 December 2005. The increase in revenues was mainly due to increased volumes of sales and higher precious metals prices. During each of the years ended 31 December 2005 and 2004, silver sales represented more than half of the Company's revenues. In particular, for the years ended 31 December 2005 and 2004, silver sales accounted for 57.1% and 57.6% of the Company's revenues and gold sales accounted for 42.1% in both years. The remaining revenues primarily resulted from sales of services attributable to Polymetal Engineering to third parties.

The following table sets forth details of the Company's sales of silver and gold for the periods indicated, as well as the amount of revenues generated by sales of these metals.

	Year ended 31 December 2005			Year ended 31 December 2004			
	Thousand ounces	Average realised price ($ per ounce)	Revenues ($ in thousands)	Thousand ounces	Average realised price ($ per ounce)	Revenues ($ in thousands)	Change in revenues (in percentages)
Silver	18,918	7.22	136,520	17,301	6.80	117,695	16.0
Gold	234	429.37	100,472	213	403.56	85,959	16.9

Sales of silver

During the year ended 31 December 2005, silver sales increased by 16.0%, from $117.7 million for the year ended 31 December 2004 to $136.5 million for the year ended 31 December 2005. The volume of silver sold in the year ended 31 December 2005 increased by 9.2% to 18.9 million ounces from 17.3 million ounces for the year ended 31 December 2004.

During 2005, the average London fixing price for silver increased by 9.8% from $6.66 per ounce in 2004 to $7.31 per ounce in 2005. During 2005, Polymetal's average realised sales price for silver increased by 6.2% from $6.80 per ounce in 2004 to $7.22 per ounce in 2005. The lower average price realised in 2005 by the Company, compared to the average London fixing price, was attributable to the lower average price of $7.03 per ounce, realised by the Company in respect of 59% of its total silver sales, which were subject to minimum and maximum price limitations or fixed prices under the sales of future production or forward sales contracts described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver". In contrast, for the year ended 31 December 2004, the Company realised an average price of $6.97 per ounce in respect of 38% of its total silver sales which were subject to forward sales contracts, while the average London fixing price was $6.66 per ounce. For each of the years ended 31 December 2005 and 2004, the average price realised at which the Company sold its silver reflected a difference of $3.1 million from London fixing prices, comprised of standard discounts under its sales contracts and the effects of sales at fixed prices.

The increase in volume of silver sold resulted primarily from increased silver production, which rose by 9.2% to 18.9 million ounces in 2005 from 17.3 million ounces in 2004. Increases in production took place primarily at the Dukat facility (the largest of the Company's silver producing mines, accounting for the majority of its silver production for the year 2005) through deeper underground mining and at the Khakanja facility.

In particular, the decrease in silver production recorded at Lunnoye from 3.7 million ounces produced for the year ended 31 December 2004 to 3.0 million ounces produced for the year ended 31 December 2005 was more than offset by the 66% increased production at Khankanja (which reached its full processing capacity in August 2005) from 1.5 million ounces in 2004 to 2.4 million ounces in 2005 and the 10.7% increase in production at Dukat from 12.1 million ounces for 2004 to 13.4 million ounces for 2005. For the year ended 31 December 2005, Dukat, Khakanja, Lunnoye and Voro accounted for 70.8%, 12.9%, 16.0% and 0.3%, respectively, of the Company's silver production and for the year ended 31 December 2004, they accounted for 69.9%, 8.5%, 21.3% and 0.3%, respectively, of the Company's silver production.

Sales of gold

During the year ended 31 December 2005, gold sales increased by 16.9% from $86.0 million for the year ended 31 December 2004 to $100.5 million for the year ended 31 December 2005. The volume of gold sold in the year ended 31 December 2005 increased by 9.9% to 234 thousand ounces from 213 thousand ounces for the year ended 31 December 2004.

During 2005, the average London fixing price for gold increased by 8.6% from $409.17 per ounce in 2004 to $444.45 per ounce in 2005. During the same period, Polymetal's average realised sales price for gold increased by 6.4% from $403.56 per ounce in 2004 to $429.37 per ounce in 2005. The lower average price realised by the Company, compared to the average London fixing price, was attributable to the lower average price of $412.05 per ounce realised by the Company in respect of 26% of its total gold sales, which were subject to fixed prices under forward sales contracts described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver". For the year ended 31 December 2004, the Company realised an average price of $398.52 per ounce in respect of 40% of its gold sales, which were made under forward sales contracts, while the average London fixing price was $409.17 per ounce. For the years ended 31 December 2005 and 2004, the average price at which the Company sold its gold reflected a difference of $2.4 million and $4.4 million, respectively, from London fixing prices, comprised of standard discounts under its sales contracts and the effects of sales at fixed prices.

The volume of gold sold in the year ended 31 December 2005 increased mainly as a result of increased levels of gold production, which grew by 14.6% over the year 2005 to 243 thousand ounces from 212 thousand in 2004, mainly as a result of increased production at Khakanja, the Company's largest gold producing mine, which reached its full processing capacity in August 2005.

In particular, the decrease in gold production recorded at Lunnoye and Voro from an aggregate of 109 thousand ounces produced for the year ended 31 December 2004 to 100 thousand ounces produced for the year ended 31 December 2005, was more than offset by the 49.4% increased production at Khankanja, which increased from 79 thousand ounces in 2004 to 118 thousand ounces in 2005 and a slight increase recorded at Dukat from 24 thousand ounces for 2004 to 25 thousand ounces for 2005. For the year ended 31 December 2005, Dukat, Khakanja, Lunnoye and Voro accounted for 10.3%, 48.6%, 10.3% and 30.9%, respectively, of the Company's gold production and for the year ended 31 December 2004, they accounted for 11.3%, 37.3%, 14.6% and 36.8%, respectively, of its gold production.

Cost of sales

In the year ended 31 December 2005, total cost of sales increased by 48.4% to $137.9 million, compared to $92.9 million recorded for the year ended 31 December 2004. As a percentage of revenues, cost of sales increased from 45.4% in 2004 to 57.7% in 2005. This increase was mainly due to increased operating costs, driven by an increase in staff costs and energy, as well as an increase in depreciation and depletion. Macroeconomic factors played a direct role in the increase in cost of sales, in particular higher inflation rates in 2005 and appreciation of the Russian rouble against the U.S. dollar.

The table below sets forth information related to the Company's cost of sales for the periods indicated.

	Year ended 31 December				
	2005		2004		Change
	($ in millions, except percentages)				(in percentages)
Operating costs					
of which					
Material and spare parts	27.3	19.8%	22.4	24.1%	21.9
Staff costs	28.0	20.3%	17.9	19.3%	56.4
Energy	19.6	14.2%	12.2	13.1%	60.7
Services	9.3	6.7%	8.9	9.6%	4.5
Other	3.7	2.7%	3.1	3.4%	19.4
Total operating costs	**87.9**	**63.7%**	**64.5**	**69.5%**	**36.3**
Mining tax	13.6	9.9%	9.0	9.7%	51.1
Other taxes, except for income taxes	6.7	4.9%	4.4	4.7%	52.3
Amortisation, depreciation and depletion(1)	25.2	18.3%	12.6	13.5%	100.0
Accretion of reclamation and mine closure obligation	0.6	0.4%	0.7	0.8%	(14.3)
Development costs written off	2.5	1.8%	0.2	0.2%	1150
Other costs	1.4	1.0%	1.5	1.6%	(6.7)
Total cost of sales	**137.9**	**100%**	**92.9**	**100%**	**48.4**

(1) Includes depreciation and depletion, amortisation of intangible assets and depletion of mineral rights.

Operating costs

For the year ended 31 December 2005 total operating costs increased by 36.3% to $87.9 million from $64.5 million for the year ended 31 December 2004.

For the year ended 31 December 2005, costs on material and spare parts increased 21.9%, compared to the previous year, mainly due to increased mining activities and processing operations, as well as inflation. The Company managed to contain the increase in material and spare parts costs relative to other cost elements despite additional processing costs incurred in respect of the Voro CIP plant and the increase in ore milled at Khakanja and Dukat.

For the year ended 31 December 2005, energy costs increased significantly by 60.7% to $19.6 million from $12.2 million over the same period in 2004, as a result of higher energy prices generally, rouble appreciation and increased consumption attributable to higher production levels, including the ramp up in production at Khakanja starting in August 2005. Costs related to contractor services increased 4.5% for the period ended 31 December 2005 over the same period in 2004. This increase was driven by increased transportation for ore and concentrates at Dukat and Voro, which, in turn, led to a significant increase in transportation and refinery expenses for these mines, as well as outsourcing of smelting services at Khakanja in 2005.

For the year ended 31 December 2005, staff costs increased 56.4% to $28.0 million from $17.9 million for the year ended 31 December 2004. This increase was mainly due to the growth in workers' wages (which increased across the Company's producing deposits by approximately 20-25% in rouble terms) and increased headcount at Voro CIP plant and Dukat underground. This growth in wages resulted from increased market competition for qualified labour in the Far East of Russia and rouble appreciation.

Non-operating costs

For the year ended 31 December 2005, mining tax increased by $4.6 million, or 51.1%, to $13.6 million from $9.0 million from the year ended 31 December 2004. This increase was mainly due to higher production levels, as tax is calculated on the basis of mined ore, and increases in realised sale prices for gold and silver. For the year ended 31 December 2005, other taxes, except for income taxes increased by 52.3% to $6.7 million from $4.4 million for the year ended 31 December 2004. This increase was mainly due to increased mandatory social security contributions, which increased as a consequence of salary increases, and to the increase in property tax as significant fixed assets were being put into use and began to be subject to taxation for property tax purposes.

For the year ended 31 December 2005, amortisation, depreciation and depletion increased by 100.0% to $25.2 million from $12.6 million for the year ended 31 December 2004. This increase resulted primarily from increased production (as depreciation and depletion of property, plant and equipment related to mining are computed using the units-of-production method) and increased investment into buildings, underground workings, machinery and equipment and acquisitions of new mineral rights, including mineral rights resulting from the acquisition of the remaining 20% in the subsidiary ZAO Serebro Magadana, the licence owner for the Dukat mine.

For the year ended 31 December 2005, accretion of reclamation and mine closure obligations decreased by 14.3% to $0.6 million from $0.7 million for the year ended 31 December 2004. For the year ended 31 December 2005, development costs written off increased by $2.3 million to $2.5 million from $0.2 million for the year ended 31 December 2004. This increase was mainly due to the write-off of the remaining balance of the capitalised deferred stripping expenditures from prior years after the change in the accounting policy to expense stripping costs as incurred, without capitalisation. Other costs fell slightly by $0.1 million to $1.4 million from $1.5 million in the year ended 31 December 2004.

Income from mining operations

In 2005, the Company's income from mining operations fell by 9.4%, from $111.6 million in 2004 to $101.1 million, as a result of higher cost of sales, which grew at a faster rate than revenues in 2005. The following table sets forth information relating to the Company's income from mining operations:

	Year ended 31 December		
	2005	2004	Change
	($ in millions, except percentages)		(in percentages)
Revenues	239.0	204.5	16.9
Cost of sales	(137.9)	(92.9)	48.4
Income from mining operations	**101.1**	**111.6**	**(9.4)**
Income from mining operations margin(1)	**42.3%**	**54.6%**	

(1) Income from mining operations margin is calculated as income from mining operations divided by revenues.

Operating expenses

For the year ended 31 December 2005, operating expenses increased by 48.9% from $22.7 million for the year ended 31 December 2004 to $33.8 million for the year ended 31 December 2005. The increase in operating expenses was mainly attributable to a significant increase in general, administrative and selling expenses, as well as an increase in other expenses. The following table sets forth information regarding the Company's operating expenses for the periods indicated:

	Year ended 31 December		
	2005	2004	Change
	($ in millions)		(in percentages)
Exploration expenses	—	0.1	—
General, administrative and selling expenses	22.4	15.5	44.5
Other expenses, net	11.4	7.1	60.6
Total operating expenses	**33.8**	**22.7**	**48.9**

The Company's general, administrative and selling expenses increased by 44.5% to $22.4 million in 2005 from $15.5 million for the year ended 31 December 2004. This increase was largely due to significant increases in the number of exploration and engineering staff and rising salaries for qualified personnel at the Company's head office, an increase in professional fees paid and the continued appreciation of the rouble against the dollar. Other expenses, net increased by 60.6% to $11.4 million for the year ended 31 December 2005 from $7.1 million for the year ended 31 December 2004. This increase was primarily attributable to higher levels of voluntary contributions to social programmes and increased expenses as a consequence of charges assessed under the Standard Bank Facility Agreement and payment of premiums for business interruption insurance required under this agreement. The majority of these fees and charges were assessed against the Company during 2005 even though the agreement was signed in December 2004.

Operating income

For the year ended 31 December 2005, operating income decreased by $21.6 million, or 24.3%, to $67.3 million from $88.9 million for the year ended 31 December 2004, as a result of higher cost of sales and total operating expenses which were only partially offset by increased revenues.

Income from continuing operations before income tax and minority interest

Income from continuing operations before income tax and minority interest decreased by $31.3 million or by 49.8% to $31.6 million for the year ended 31 December 2005 from $62.9 million for the year ended 31 December 2004. This decrease was attributable to the decline in operating income, which was partially offset by a decrease in interest expense and capital lease finance costs and net exchange losses during 2005 compared to exchange gains during 2004. The following table sets forth information regarding the Company's income from continuing operations before income tax and minority interest for the periods indicated.

	Year ended 31 December		
	2005	2004	Change
	($ in millions)		(in percentages)
Operating income	**67.3**	**88.9**	**(24.3)**
Interest expense	(24.9)	(29.2)	(14.7)
Capital lease finance costs	(4.0)	(5.5)	(27.3)
Exchange (loss)/gain, net	(6.8)	8.7	(178.2)
Income from continuing operations before income tax and minority interest	**31.6**	**62.9**	**(49.8)**

Interest expense decreased by 14.7% from $29.2 million in the year ended 31 December 2004 to $24.9 million in the year ended 31 December 2005. This decrease resulted from the overall reduction in the Company's borrowings over the period which declined 10.7% from $319.0 million at 31 December 2004 to $284.8 million at 31 December 2005. Capital lease finance costs decreased by $1.5 million from $5.5 million for the year ended 31 December 2004 to $4.0 million for the year ended 31 December 2005 due to a reduction in the number of active leasing contracts. For the year ended 31 December 2004, the Company recorded an exchange gain of $8.7 million, compared to an exchange loss of $6.8 million for the year ended 31 December 2005, resulting primarily from fluctuations in the rouble/dollar exchange rate and its impact on the rouble value of the Company's U.S. dollar-denominated debt. As the rouble is the Company's functional currency and most of its debt is dollar denominated, a falling rouble generally leads to exchange losses while a strengthening rouble leads to exchange gains.

Income tax expense

Income tax expense decreased by 49.4% to $9.0 million for the year ended 31 December 2005 from $17.8 million for the year ended 31 December 2004, consistent with a decrease in profit before tax.

The following table sets forth a breakdown of the Company's income tax expense for the periods indicated.

	Year ended 31 December		
	2005	2004 (Restated)	Change
	($ in millions)		(in percentages)
Current tax expense	(13.0)	(3.4)	282.4
Change in deferred tax assets	(2.7)	(2.4)	12.5
Net change in valuation allowance	2.3	2.7	(14.8)
Change in deferred tax liability	4.4	(14.7)	(129.9)
Total income tax expense	**(9.0)**	**(17.8)**	**(49.4)**

Minority interest

Minority interest decreased by 54.6% to $7.9 million for the year ended 31 December 2005 from $17.4 for the year ended 31 December 2004. This decrease was due to the increase in the Company's effective interest in ZAO Zoloto Severnogo Urala from 83.33% to 99.96% through the acquisition of preferred shares in October 2005. The decrease in minority interest also reflected the increase in the Company's effective ownership in Serebro Magadana from 88% to 100%. The higher minority interest in 2004 was due to the decrease in the Company's ownership during 2004 in OAO Okhotskaya GGC from 80.0% at 31 December 2003 to 67.35% at 31 December 2004.

Income on discontinued operations

Income on discontinued operations decreased by 93.5% from $44.7 million for the year ended 31 December 2004 to $2.9 million for the year ended 31 December 2005, which mainly accounted for the sales by the Company of 100% of its shareholding in Kurilskaya GGK, a subsidiary holding the licence for development of the Prasolovskoye field, Olginskaya GGK, a subsidiary holding the licence for development of the Olginskaya gold prospective area and Imitzoloto, a subsidiary holding the licence for development of the Aprelkovsko-Peshkovskiy ore cluster and its 50% stake in Yeniseiskaya Investment Company. The income on discontinued operations recorded for the year ended 31 December 2004 was mainly due to the sale in December 2004 of the 70.5% interest held by the Company in ZAO Zun Hada, a subsidiary holding licences to develop the Barun-Kholba properties. ZAO Zun Hada had significant accumulated losses which were recognised as a pre-tax gain on disposal in the amount of $47.6 million.

Net income

As a result of the above, net income decreased by $54.8 million, from $72.4 million for the year ended 31 December 2004 to $17.6 million for the year ended 31 December 2005.

Year Ended 31 December 2004 Compared to the Year Ended 31 December 2003

Revenues

During the year ended 31 December 2004, revenues increased by 121.3% from $92.4 million for the year ended 31 December 2003 to $204.5 million for the year ended 31 December 2004. The increase in revenues was mainly due to the increase in silver production and resulting increase in sales volume, as well as the significantly higher average realised silver price. The growth in revenues was partially offset by the effects of the suspension of operations in, and subsequent disposal of, ZAO Zun Khada, a subsidiary of the Company holding licences to develop the Barun-Kholba properties, which accounted for $2.9 million of the Company's revenues for 2003 and whose production was suspended in July 2003. ZAO Zun Khada was subsequently sold by the Company in December 2004. For the years ended 31 December 2004 and 2003, silver sales accounted for 57.6% and 49.4% of the Company's total revenues and gold sales accounted for 42.1% and 49.7%, respectively. The remaining revenues produced by the Company were mainly attributable to sales of services attributable to Polymetal Engineering to third parties.

The following table sets forth details of the Company's sales of silver and gold for the periods indicated.

	Year ended 31 December 2004			Year ended 31 December 2003			Change
	Thousand ounces	Average realised price ($ per ounce)	Revenues ($ in thousands)	Thousand ounces	Average realised price ($ per ounce)	Revenues ($ in thousands)	in revenues (in percentages)
Silver	17,301	6.80	117,695	9,839(1)	4.64	45,609	158.1
Gold	213	403.56	85,959	129(2)	355.98	45,921	87.2

(1) Excludes sales of 4 thousand ounces from discontinued operations.

(2) Excludes sales of 8 thousand ounces from discontinued operations.

Sales of Silver

During the year ended 31 December 2004, silver sales increased by 158.1% from $45.6 million for the year ended 31 December 2003 to $117.7 million for the year ended 31 December 2004. The volume of silver sold in the year ended 31 December 2004 increased by 76.5% to 17.3 million ounces from 9.8 million ounces for the year ended 31 December 2003.

During 2004, the average London fixing price for silver increased by 36.5% from $4.88 per ounce in 2003 to $6.66 per ounce in 2004. During the same period, Polymetal's average realised sales price for silver increased by 46.6% from $4.64 per ounce in 2003 to $6.80 per ounce in 2004. The higher average price realised by the Company, compared to the average London fixing price, was attributable to the higher average price of $6.97 per ounce, realised by the Company in respect of 38% of its total silver sales, which was subject to fixed prices under the sales of future production described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver". In contrast, for the year ended 31 December 2003, the Company's realised average price of silver of $4.64 per ounce was lower than the average London fixing price of $4.88 per ounce, primarily due to the lower realised average price of $4.57 per ounce in respect of 78% of its silver sales subject to fixed prices. For the years ended 31 December 2004 and 2003, the average price at which the Company sold its silver reflected a difference of $3.1 million and $2.9 million, respectively, from London fixing prices, comprised of standard discounts under its sales contracts and the effects of sales at fixed prices.

The increase in volume of silver sold resulted primarily from increased silver production, which rose by 46.6% to 17.3 million ounces in 2004 from 11.8 million ounces in 2003, as increases in production took place at the Dukat and Lunnoye facilities and as the Khakanja facility started operating in 2004.

In particular, for the year ended 31 December 2004, Khakanja produced 1.5 million ounces of silver, Dukat increased its production by 39.7% to 12.1 million ounces from 8.6 million ounces for the year ended 31 December 2003. During the same period, Lunnoye increased its silver production by 19.4% to 3.7 million ounces from 3.1 million ounces and Voro reduced its production by 9.5% with a minor impact on the results of operation of the Company. For the year ended 31 December 2003, Dukat, Lunnoye and Voro accounted for 73.5%, 26.0% and 0.5%, respectively, of the Company's silver production.

Sales of gold

During the year ended 31 December 2004, gold sales increased by 87.2%, from $45.9 million for the year ended 31 December 2003 to $86.0 million for the year ended 31 December 2004. The volume of gold sold in the year ended 31 December 2004 increased by 65.1% to 213 thousand ounces from 129 thousand ounces for the year ended 31 December 2003.

During 2004, the average London fixing price for gold increased by 12.6% from $363.32 per ounce in 2003 to $409.17 per ounce in 2004. During the same period, the Company's average sales price for gold increased by 13.4% from $355.98 per ounce in 2003 to $403.56 per ounce in 2004. For each of the years ended 31 December 2004 and 2003, the lower average price realised by the Company, compared to the average London fixing price, was attributable to the lower average price of $398.52 per ounce in 2004 and $353.54 per ounce in 2003, realised by the Company in respect of 40% and 83%, respectively, of its total gold sales, which was subject to fixed prices under sales of future production described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver". For the years ended 31 December 2004 and 2003, the average price at which the Company sold its gold reflected a difference of $4.4 million and $2.8 million, respectively, from London fixing prices, comprised of standard discounts under its sales contracts and the effects of sales at fixed prices.

The increase in volume of gold sold resulted primarily from increased gold production, which rose by 54.7% to 212 thousand ounces in 2004 from 137 thousand ounces in 2003, mainly as a result of the launch of operations at Khakanja. However, during 2004 gold production at Voro fell by 10% compared with 2003, primarily due to a 7% decrease in the average head grade of gold.

In particular, for the year ended 31 December 2004, Khakanja produced 79 thousand ounces of gold, Dukat increased its production by 9.1% to 24 thousand ounces from 22 thousand ounces for the year ended 31 December 2003. During the same period, Lunnoye increased its gold production by 82.4% to 31 thousand ounces from 17 thousand ounces and Voro reduced its production by 15.2% from 92 thousand ounces to 78 thousand ounces. For the year ended 31 December 2003, Dukat, Lunnoye and Voro accounted for 16.1%, 12.4% and 67.2%, respectively, of the Company's gold production.

Cost of Sales

In the year ended 31 December 2004, total cost of sales grew by 67.4% compared with the year ended 31 December 2003. The table below sets forth information related to the Company's cost of sales for the periods indicated.

	Year ended 31 December				
	2004		2003		Change
	($ in millions, except percentages)				(in percentages)
Operating costs					
of which					
Material and spare parts	22.4	24.1%	13.3	24.0%	68.4
Staff costs	17.9	19.3%	13.5	24.3%	32.6
Energy	12.2	13.1%	6.5	11.7%	87.7
Services	8.9	9.6%	4.3	7.8%	107.0
Other	3.1	3.3%	0.9	1.6%	244.4
Total operating costs	**64.5**	**69.4%**	**38.5**	**69.4%**	**67.5**
Mining tax	9.0	9.7%	5.3	9.6%	69.8
Other taxes, except for income taxes	4.4	4.7%	3.3	5.9%	33.3
Amortisation, depreciation and depletion(1)	12.6	13.6%	6.5	11.7%	93.8
Accretion of reclamation and mine closure obligation	0.7	0.8%	0.4	0.7%	75.0
Development costs written off	0.2	0.2%	0.6	1.1%	(66.7)
Other costs	1.5	1.6%	0.9	1.6%	66.7
Total cost of sales	**92.9**	**100%**	**55.5**	**100%**	**67.4**

(1) Includes depreciation and depletion, amortisation of intangible assets and depletion of mineral rights.

Operating costs

In the year ended 31 December 2004, total operating costs increased by 67.5% to $64.5 million from $38.5 million for the year ended 31 December 2003. This increase was mainly due to a significant increase in metal production and increases in the prices of consumables, particularly diesel fuel, electricity, certain chemical reagents and steel, driven by increased costs at Dukat which did not reach its designed production capacity, and continued real appreciation of the rouble against the U.S. dollar. In particular, during 2004, the costs for raw materials and spare parts increased by 68.4%, compared to the costs incurred during 2003. However, in 2004 production increased more rapidly than material expenditures. Thus, per unit costs declined.

For the year ended 31 December 2004, energy costs increased significantly by 87.6% to $12.2 million from $6.5 million over the same period in 2003, as a result of higher energy prices generally and increased consumption attributable to higher production levels. Costs related to contractor services increased 207% for the period ended 31 December 2004 over the same period in 2003, reflecting higher transportation costs arising out of the ramp up in production levels generally.

In the year ended 31 December 2004, staff costs increased by $4.4 million, or 32.6%, to $17.9 million from $13.5 million in the year ended 31 December 2003. This was mainly due to the growth of workers' salaries and some increase in headcount. Increased headcount was attributable to the launch of Khakanja. However, headcount grew significantly less than production volumes resulting in greater labour productivity.

Non-operating costs

In the year ended 31 December 2004, mining tax increased by 69.8% to $9.0 million from $5.3 million in the year ended 31 December 2003. This was mainly due to increased levels of ore processed and increased market prices for gold and silver. In the year ended 31 December 2004, other taxes, except for income taxes, increased by 33.3% to $4.4 million from $3.3 million in the year ended 31 December 2003. This was mainly due to increased property tax as significant fixed assets were being put into use and began to be subject to taxation for property tax purposes.

In the year ended 31 December 2004, amortisation depreciation and depletion increased by 93.8% to $12.6 million from $6.5 million in the year ended 31 December 2003. This increase was mainly due to significant investments in buildings, underground works, machinery and equipment and acquisitions of new mineral rights during 2003 and 2004.

In the year ended 31 December 2004, accretion of reclamation and mine closure obligations increased by 75.0% to $0.7 million from $0.4 million in the year ended 31 December 2003. In the year ended 31 December 2004, development costs written off fell by 66.7% to $0.2 million from $0.6 million in the year ended 31 December 2003. Other costs increased slightly by 66.7% to $1.5 million from $0.9 million in the year ended December 2003.

Income from mining operations

For the year ended 31 December 2004, the Company's income from mining operations increased by 202.4% from $36.9 million recorded in the year ended 31 December 2003 to $111.6 million in the year 2004. This increase was due to a significant increase in revenue that outperformed the growth in cost of sales. The following table sets forth information relating to the Company's income from mining operations.

	Year ended 31 December		
	2004	**2003**	**Change**
	($ in millions, except percentages)		**(in percentages)**
Revenues	204.5	92.4	121.3
Cost of sales	(92.9)	(55.5)	67.4
Income from mining operations	**111.6**	**36.9**	**202.4**
Income from mining operations margin(1)	**54.6%**	**39.9%**	

(1) Income from mining operations margin is calculated as income from mining operations divided by revenues.

Operating expenses

During the year ended 31 December 2004, operating expenses increased by 62.1% to $22.7 million from $14.1 million for the year ended 31 December 2003. The increase in operating expense was mainly attributable to a significant increase in general administrative and selling expenses, as well as increase in other expenses. The following table sets forth information regarding the Company's operating expenses for the periods indicated.

	Year ended 31 December		
	2004	**2003**	**Change**
	($ in millions)		**(in percentages)**
Exploration expenses	0.1	0.3	(66.7)
General, administrative and selling expenses	15.5	9.5	63.2
Other expenses, net	7.1	4.3	65.1
Total operating expenses	**22.7**	**14.1**	**61.0**

The Company's general, administrative and selling expenses for the year ended 31 December 2004 increased by 63.2% to $15.5 million from $9.5 million for the year ended 31 December 2003. This was mainly due to increased wages for mine management, the strengthening of the rouble against the U.S. dollar, significant increases in the number of geological and engineering staff and rising salaries for qualified personnel. Other expenses, net increased by $2.8 million for the year ended 31 December 2004. This increase was primarily attributable to voluntary contributions to social programmes and expenses recorded as a consequences of arrangement fees and other charges assessed under the Standard Bank Facility Agreement and fees paid to outside consultants and service providers.

Operating income

In the year ended 31 December 2004, operating income increased by 289.9% to $88.9 million from $22.8 million the previous year, due to a large increase in income from mining operations, that outperformed increases in general, administrative and selling expenses and other expenses, net.

Income from continuing operations before income tax and minority interest

Income from continuing operations before income tax and minority interest increased by 253.4% to $62.9 million in the year ended 31 December 2004 from $17.8 million in the year ended 31 December 2003. This was mainly attributable to higher operating income and a small increase in exchange gain, partially offset by the increase in interest expense. The following table sets forth information regarding the Company's income from continuing operations before income tax and minority interest for the periods indicated.

	Year ended 31 December		
	2004	2003	Change
	($ in millions)		(in percentages)
Operating income	**88.9**	**22.8**	**289.9**
Interest expense	(29.2)	(21.0)	39.0
Capital lease finance costs	(5.5)	(5.4)	1.9
Gain on partial disposal of interest in a consolidated subsidiary	—	13.8	—
Exchange (loss) gain, net	8.7	7.6	14.5
Income from continuing operations before income tax and minority interest	**62.9**	**17.8**	**253.4**

Interest expense increased by 39.0% from $21.0 million in the year ended 31 December 2003 to $29.2 million in the year ended 31 December 2004 due to increase in borrowings, by 19.4% from $267.2 million in 2003 to $319.0 million in 2004. Capital lease finance costs increased by 1.9% to $5.5 million for the year ended 31 December 2004, compared to $5.4 million for the year ended 31 December 2003. In the year ended 31 December 2004 the Company's exchange gain increased by $1.1 million and amounted to $8.7 million in 2004, due to appreciation of the rouble against the U.S. dollar and its impact on the rouble value of the Company's U.S. dollar-denominated debt. As the rouble is the Company's functional currency and most of its debt is U.S. dollar denominated, the falling rouble leads to exchange losses while the strengthening rouble leads to exchange gains.

Income tax expense/benefit

Income tax expense was $17.8 million for the year ended 31 December 2004, compared to income tax benefit of $3.1 million for the year ended 31 December 2003. Tax benefit in 2003 resulted primarily from non-recognition for tax purposes of gain on disposal of subsidiaries and utilisation in 2003 of previously unrecognised tax losses. The following table sets forth a breakdown of the Company's income tax expense for the periods indicated.

	Year ended 31 December		
	2004 (Restated)	2003	Change
	($ in millions)		(in percentages)
Current tax expense	(3.4)	(0.1)	—
Change in deferred tax assets	(2.4)	3.0	(180.0)
Net change in valuation allowance	2.7	2.4	12.5
Change in deferred tax liability	(14.7)	(4.5)	226.7
Less deferred tax liability charged to accumulated translation adjustment	—	2.3	—
Total income tax (expense)/benefit	**(17.8)**	**3.1**	**(674.2)**

Minority interest

Minority interest increased from $0.6 million for the year ended 31 December 2003 to $17.4 million for the year ended 31 December 2004. The increase in minority interest was mainly due to increased profitability at subsidiaries with minority shareholders. ZAO Serebro Magadana, the licence owner for the Dukat mine, recorded its first sales in this period, and following the issuance by ZAO Zoloto Severnogo Urala, a subsidiary of the Company, of preferred shares to Nomos Bank, the interest of the Company in such subsidiary decreased from 99.95% to 83.33%. This latter transaction was carried out in order to raise funds to finance the operation of the Company.

Income/loss on discontinued operations

For the year ended 31 December 2004, the Company had an income on discontinued operations in amount of 44.7 million, compared to a loss of $6.9 million recorded in the year ended 31 December 2003. The gain recorded in 2004 was mainly attributable to the sale in December 2004 of the 70.5% interest held by the Company in ZAO Zun Hada, a subsidiary holding licences to develop the Barun-Kholba properties. ZAO Zun Hada had significant accumulated losses which were recognised as a pre-tax gain on disposal in the amount of $47.6 million.

Net Income

As a result of the above, for the year ended 31 December 2004, net income increased by $59.0 million.

Liquidity and Capital Resources

Working capital requirements

Historically, the Company has relied on bank loans, loans from related parties, and, to a lesser extent, cash flows from operating activities to finance its working capital and long-term capital requirements. Following this Offering, the Company expects that it will be able to rely to a larger extent on cash flows from operating activities and to reduce its leverage.

In accordance with this strategy, the Company plans to use part of the proceeds from the Offering, among other things, to repay short-term debt, partially fulfil its outstanding obligations under the agreement with PanAmerican Silver and pursue the strategic alliance with AngloGoldAshanti. See "Use of Proceeds".

The Company's future liquidity and requirements for business needs, including those to implement capital expenditures in accordance with its business strategy or the funding of acquisitions, are expected to be financed by a combination of cash flows generated by the Company's operating activities, external sources of financing and proceeds from this Offering. However, the Company's business may not generate sufficient operating cash flows, and external sources of financing may not be available in sufficient amounts or on commercially reasonable terms to enable the Company to service or refinance its indebtedness or to fund other liquidity needs. The Company's ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Russian and other financial markets, prevailing interest rates, the Company's credit rating and the Russian government's policies regarding rouble and foreign currency borrowings, as well as the Company's financial performance. The Company is also subject to restrictions on its ability to incur further indebtedness under the terms of its loan facilities. See "—Indebtedness".

Capital expenditures

The Company primarily incurs capital expenditures to:

- build new mines and processing plants;
- expand, upgrade and improve existing mines, processing plants, and related infrastructure;
- purchase mining and processing equipment to replace aged, inefficient, or obsolete machines; and
- discover new reserves.

During the year ended 31 December 2003, capital expenditures amounted to $46.7 million of which a significant part was invested to build the Khakanja mine and in new underground mining equipment at Dukat.

During the year ended 31 December 2004, capital expenditures amounted to $29.6 million representing investments to build the CIP processing plant at Voro, to complete the processing plant at Khakanja, upgrade the Merrill Crowe section of the Lunnoye processing plant, expand the underground mining fleet and build new housing accommodation for employees at Dukat.

During the year ended 31 December 2005, capital expenditures amounted to $25.1 million, representing investments to expand the milling section and to build the filtration section of the processing plant at Khakanja.

During the first nine months of 2006, capital expenditures amounted to $31.7 million mainly representing investments to build a new tailings impoundment and expand the processing plant capacity at Dukat, build a road to and to buy a mining fleet for the newly commissioned Arylakh mine, start the construction of the underground mine at Lunnoye, purchase additional open pit mining equipment for the start-up of pit 2 at Khakanja, and build a walking dragline at Voro.

For the three-year period 2007-2009, the Company expects that its main capital expenditures will consist of the following investments:

- $14.4 million in open-pit equipment and $6.6 million in underground mining equipment;
- $1.4 million and $3.0 million, respectively, to expand underground mines at Dukat (including the commissioning of railway haulage) and Lunnoye;
- $5.8 million to expand the processing plant capacity at Voro and $10 million to expand the processing plant capacity at Dukat (including the expected completion of the new tailings impoundment);
- $2 million in housing accommodation for employees at Dukat and Lunnoye; and
- $40 million in exploration at various sites (except known ore bodies at the existing mines).

Additional capital expenditures may be required if, among other things, the Company decides to build mines at any of its exploration project sites, based on its exploration results. The Company may also require additional capital expenditures in connection with its strategic alliance and/or joint venture, should they commence operations.

Cash flows

The table below sets forth the Company's summarised cash flows for the periods indicated.

	Nine months ended 30 September		Year ended 31 December		
	2006	2005	2005	2004 (Restated)	2003
	($ in millions)				
Net cash provided by (used in) operating activities	8.7	26.4	82.7	37.5	(35.0)
Net cash provided by (used in) investing activities	(109.7)	43.3	(12.9)	(63.4)	(42.0)
Net cash provided by (used in) financing activities	84.1	(65.3)	(52.2)	25.2	78.3

Operating activities. Net cash from operating activities decreased by $17.7 million to $8.7 million for the nine months ended 30 September 2006 from $26.4 million for the nine months ended 30 September 2005, primarily due to changes in operating working capital.

Net cash provided by operating activities before changes in operating working capital was higher in the first nine months of 2006 amounting to $65.5 million, compared to $45.8 million in the first nine months of 2005. This increase principally reflected higher net income of $49.5 million in the first nine months of 2006 compared to $15.6 million in the first nine months of 2005, partially offset by non-cash foreign exchange adjustments to net income ($17.9 million exchange gain in the first nine months of 2006 compared to a $4.6 million loss in the first nine months of 2005).

Changes in working capital, excluding cash and debt, were negative $56.8 million in the first nine months of 2006 compared to negative $19.5 million in the first nine months of 2005. The significant negative adjustment in the first nine months of 2006 resulted mainly from increases in work-in-progress inventory (mainly consisting of ore stockpiled at Voro in anticipation of increases in processing capacity, ore stacked at Voro in connection with heap leaching operations, as well as seasonal shipments of materials to Khakanja).

Net cash from operating activities increased by $45.2 million from $37.5 million for the year ended 31 December 2004 to $82.7 million for the year ended 31 December 2005, primarily due to changes in operating working capital.

Net cash provided by operating activities before changes in working capital decreased in 2005 to $57.8 million from $67.8 million in 2004, reflecting lower net income ($17.6 million in 2005 compared to $72.4 million in 2004) and non-cash adjustments to net income, primarily deferred tax effects (a $4.0 million negative adjustment in 2005 as compared with a $14.4 million positive adjustment in 2004), partially offset by non-cash adjustments of gains on disposal of subsidiaries ($3.6 million in 2005 as compared to $47.5 million in 2004) and effects of non-cash foreign exchange adjustments to net income ($6.8 million loss in 2005 as compared to $8.7 gain in 2004). Significant gain on disposal in 2004 was realised on the sale of 70.5% of ZAO Zun Hada, which had significant accumulated losses prior to disposal. See Note 26 to the Company's audited consolidated financial statements.

Changes in working capital were positive $24.9 million in 2005 as compared with negative $30.3 million in 2004. These changes in working capital were primarily attributable to a significant change in other current assets (positive adjustment of $15.7 million in 2005 as compared with negative adjustment of $21.3 million in 2004), primarily as a result of the sale during 2005 of promissory notes from Severo-Zapad Invest Prom and Khanti-Mansiiski Bank and to a change in VAT receivable (positive adjustment of $6.7 million in 2005 as compared with negative adjustment of $9.7 million in 2004) due to receipt in 2005 of VAT reimbursement for registration in 2005 of fixed assets at Dukat and Lunnoye. See also "—Significant Factors Affecting the Company's Results of Operations—Taxation—Recovery of VAT".

During the year ended 31 December 2004 net cash provided by operating activities increased to $37.5 million, as compared with net cash used in operations of $35.0 million in 2003, primarily as a result of increased profitability.

Investing activities. Net cash used in investing activities was $109.7 million in the nine months ended 30 September 2006, primarily as a result of $91.8 million paid for acquisitions of subsidiaries and minority interests, including Okhotsk Mining and Geological Company and Resources Albazino, additions to property, plant and equipment of $31.7 million, partially offset by repayment of loans made to related parties of $14.7 million. Net cash provided by investing activities was $43.3 million in the nine months ended 30 September 2005, primarily as a result of repayment of loans made to third parties of $61.8 million, partially offset by net increase of loans made to related parties of $17.8 million, and additions to property, plant and equipment of $13.4 million.

In 2005, net cash used in investing activities decreased from $63.4 million for the year 2004 to $12.9 million for the year 2005, mainly as a result of the repayment by ZAO Zun Hada of a loan for $49.4 million in 2005 following its disposal by the Company in 2004. The effect of this repayment was partially offset by the increase in cash used to purchase shares in subsidiaries from $21.2 million in November 2004 (for the purchase of shares in Serebro Magadana from Pan American Silver) to $49.6 million in October 2005 (for the purchase of preferred shares in Northern Urals Gold and ordinary shares in OGGK). Additions to property, plant and equipment decreased to $25.1 million in 2005, compared to $29.6 million in 2004.

In 2004 compared to 2003, net cash used in investing activities increased to $63.4 million from $42.0 million as a result of the following:

- additions to property, plant and equipment decreased from $46.7 million in 2003 to $29.6 million in 2004;
- this decrease was more than offset by the cash used to purchase shares in Serebro Magadana from PanAmerican Silver for $21.2 million; and
- loans issued to third parties in 2004 were $31.1 million.

Financing activities. Net cash provided by financing activities was $84.1 million during the first nine months of 2006, as compared to net cash used in financing activities of $65.3 million during the first nine months of 2005. The change in the first nine months of 2006 reflected the net proceeds from borrowings of $95.9 million compared with net repayments of $43.8 million in the first nine months of 2005.

For the year ended 31 December 2005, the Company recorded net cash flows used in financial activities of $52.2 million, compared to net cash provided by financing activities of $25.2 million generated for the year ended 31 December 2004. Net cash used in financing activities during 2005 was mainly used to repay a long-term debt to related parties (mainly shareholder loans) in the amount of $132.8 million.

For the year ended 31 December 2004, the Company recorded net cash provided by financing activities of $25.2 million, compared to $78.3 million for the year ended 31 December 2003. Increase in net cash provided by financing activities in 2003 was due to proceeds from short-term loans and borrowings from related parties in the amount of $50.5 million and proceeds from long-term debt from related parties in the amount of $63.0 million.

Indebtedness

The following chart illustrates the Company's total indebtedness as of the end of the periods indicated.

	Nine months ended 30 September 2006	Year ended 31 December 2005	2004	2003
		($ in millions)		
Short-term borrowings	297.7	184.8	93.5	154.1
Long-term borrowings	87.1	100.0	225.5	113.1
Capital lease liabilities	11.3	19.9	34.6	37.7
Total debt	**396.1**	**304.7**	**353.6**	**304.9**

The following table summarises the Company's indebtedness as of 31 December 2006. For additional information, please refer to the following discussion, as well as to the notes to the Company's audited consolidated financial statements and unaudited interim financial statements included elsewhere in this Prospectus.

Lender	Borrower	Nominal Annual Interest Rate	Amount outstanding as of 31 December 2006	Maturity	Security
			($ in millions)		
Gazprombank CJSC	Polymetal	8.0%	100.0	27 April 2009	Pledges of receivables under commission contracts for gold and silver supplies. Suretyships of Magadan Silver and Silver Territory.
Sberbank	Okhotsk Mining and Geological Company	8.0%	34.6	23 July 2007	None
Sberbank	Okhotsk Mining and Geological Company	LIBOR +2%	95.0	4 December 2009	None
Sberbank	Gold of Northern Urals	8.0%	35.0	23 July 2007	None
Sberbank	Gold of Northern Urals	LIBOR +2%	37.0	11 December 2009	None
Bank Uralsib OJSC	Trading House Polymetal	9.0%	10.0	31 July 2007	Suretyships of Polymetal, Magadan Silver and Silver Territory.
Bank Uralsib OJSC	Trading House Polymetal	9.0%	10.0	13 December 2007	Suretyships of Polymetal, Magadan Silver and Silver Territory.
Alfa-Bank OJSC	Trading House Polymetal	8.3%	10.0	29 June 2007	Pledges of inventory (ore). Suretyships of Polymetal, Magadan Silver and Silver Territory.
Alfa-Bank OJSC	Trading House Polymetal	8.3%	4.9	29 June 2007	Pledges of equipment. Suretyships of the Company, Magadan Silver and Silver Territory.
ABN Amro Bank NV	Silver Territory	LIBOR +2%	40.0	27 December 2008	Pledge of equipment. Pledge of receivables under export contracts for sales of future production of silver and gold. Guarantees of Silver Territory, Magadan Silver and JSC Polymetal.
ABN Amro Bank NV	Serebro Magadana	LIBOR +2%	20.0	27 December 2008	Pledge of equipment. Pledge of receivables under export contracts for sales of future production of silver and gold. Guarantees of Silver Territory, Magadan Silver and JSC Polymetal.

As of 31 December 2006, the Company had bank loans outstanding in an aggregate principal amount of $396.5 million, of which $64.9 million were secured by collateral consisting of plant and equipment (excluding pledges of stockpiled ore) with an aggregate carrying value of $21.0 million. As of 31 December 2006, all of the shares of Serebro Magadana and Serebro Territorii were pledged as collateral under the Company's secured lending agreements. The Company expects to obtain the release of the pledges of shares of Serebro Magadana and Serebro Territorii during the first quarter of 2007.

As of 31 December 2006, the Company had $30 million available to be drawn down under various loan facilities.

The following is a summary of the main terms of the Company's outstanding loans and credit facilities.

Facility Agreement with ABN Amro Bank N.V.

On 3 December 2004 Polymetal Finance LLC ("Polymetal Finance") entered into a facility agreement with, inter alia, Standard Bank and HVB providing for a term loan facility in the principal amount of $105 million (the "Standard Bank Facility Agreement"). The Standard Bank Facility Agreement contained financial covenants similar to those contained in the Company's current syndicated loan financing with ABN AMRO Bank N.V., which is discussed below. The security documents executed in connection with the Standard Bank Facility Agreement provided in favour of Standard Bank, among other security interests, a pledge over shares of Magadan Silver and Silver Territory. During 2006, certain financial covenants of the Standard Bank Facility Agreement were breached, and no waiver was granted in respect of this breach. Therefore, the total debt to Standard Bank was classified as short-term debt and included in the current portion of long-term debt as at 30 September 2006. The Company repaid the Standard Bank Facility Agreement in full in December 2006, as discussed further below. The Company has applied for the release of the security interests granted in connection with the Standard Bank Facility Agreement and expects that such interests will be released by the end of the first quarter of 2007.

On 4 December 2006, Polymetal Finance entered into a loan agreement with Barylite Services Limited ("Barylite") in the amount of $50.0 million in order to refinance the debt outstanding under the Standard Bank Facility Agreement. For a description of the main terms of the loan agreement between Polymetal Finance and Barylite, see "Related Party Transactions—Loans from Barylite Services Limited". On 6 December 2006, the Company entered into a loan agreement with Sberbank (OJSC Savings Bank of the Russian Federation), described below under "—Sberbank (OJSC Savings Bank of the Russian Federation)". Under this agreement, Sberbank granted to the Company a credit line facility up to $95 million, of which the Company borrowed $50 million to repay the loan from Barylite Services Limited.

On 27 December 2006, Serebro Magadana and Serebro Territorii entered into a syndicated loan facility with ABN AMRO Bank N.V. ("ABN") providing for a term loan facility in the principal amount of $80 million (the "ABN Facility Agreement"). The ABN Facility Agreement is scheduled to terminate in December 2008. The Company entered into the ABN Facility Agreement in order to repay the Standard Bank Facility Agreement, to refinance certain outstanding indebtedness and to provide funds for capital investments and working capital. As of 31 December 2006, the Company had drawn $60.0 million under this facility. In January 2007, the Company drew down the remaining $20.0 million in funds available under the ABN Facility Agreement.

The main terms of the ABN Facility Agreement are as follows:

- The term of the facility is 24 months, to be repaid in monthly instalments starting from May 2007. Amounts borrowed under the facility bear interest at LIBOR plus 2.0% per annum. The ABN Facility Agreement is subject to mandatory prepayment in the event of a change of control or sale of the Company or certain of its subsidiaries, subject to certain exceptions. Polymetal has the right to repay the loan at any time by providing the lenders with fifteen days' prior notice. In connection with the ABN Facility Agreement, the Company and ABN agreed to assume the respective rights and obligations under the export contracts for sales of the Company's future production for the period from 2007-2009, subject to certain price limits during 2007, which were executed as part of the security package under the Standard Bank Facility Agreement. Such rights and obligations were transferred by means of novation and restatement of the respective export contracts. See "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver" and "General Information—Material Contracts—Export Contracts for Sales of Future Production". The ABN Facility Agreement and related documentation also restricts Polymetal from (i) disposing of its assets (including transfers, leases or sales); (ii) undertaking any type of corporate reorganisation (including mergers and demergers); (iii) creating or incurring other forms of financial indebtedness (such as making loans or granting guarantees); and (iv) taking any action in respect of its shares, capital or participatory interest (including issuing new shares or otherwise altering its existing share capital) without the prior written consent of the lenders except for the offer and listing of up to 40% of the Company's share capital. Furthermore, the facility restricts Polymetal's ability to pay dividends for any of its financial years or to make acquisitions in excess of $5.0 million without the prior written consent of the lenders.

- Pursuant to the terms of the financial guarantees, JSC Polymetal, Magadan Silver and Silver Territory have guaranteed the financial obligations of the Company under the ABN Facility Agreement. In addition, the Company agreed to comply with covenants regarding ratios calculated on the basis of the Company's debt, interest expense, EBITDA, tangible net worth, sales under its export contracts with ABN and other covenants restricting its ability, among others, with respect to the following: the granting of security interests over its assets; the transfer, sale or disposal of its assets; mergers and acquisitions; incurring of indebtedness; the entering into of hedging or similar facilities; corporate existence and business; preservation of assets; and distributions. The Company also agreed to maintain contracts for refining with approved refineries; to maintain insurance cover; and to undertake certain measures regarding environmental compliance.
- As part of the security package for the ABN Facility Agreement, the Company provided the following pledges in favour of ABN: (i) the pledge of certain moveable property of Magadan Silver and Silver Territory valued at $8.6 million and $5.3 million, respectively, and (ii) an assignment of its rights under the export contracts for sales of gold and silver to ABN. Under the security documents, the Company's secured obligations under the ABN Facility Agreement were valued at $105.0 million. The Company agreed under the security documents not to make any further pledge of such assets.

Gazprombank CJSC

In July 2006, the Company entered into Credit Line Agreement No. 190/06-V with Gazprombank CJSC for U.S.$100 million bearing interest at 8% per annum and maturing on 27 April 2009. The credit line is to be repaid in monthly instalments of U.S.$4.2-4.6 million starting from July 2007. This credit is secured by pledges of receivables under the commission contracts for gold and silver supplies concluded between the Company and the pledgors (Okhotsk Mining and Geological Company, Gold of Northern Urals and Silver Territory), as well as suretyships of Serebro Magadana and Serebro Territorii. As of 31 December 2006, there was U.S.$100 million outstanding under this credit line.

Sberbank (OJSC Savings Bank of the Russian Federation)

In June, July and December 2006, Okhotsk Mining and Geological Company and Gold of Northern Urals entered into four credit agreements with Sberbank pursuant to the General Framework Credit Line Agreements No. 3608 and No. 3610 of 28 April 2006 in the aggregate amount of $222.6 million:

- Non-Revolving Credit Line Agreement No. 3610/3653 entered into with Okhotsk Mining and Geological Company for U.S.$34.6 million bearing interest of 8% per annum maturing on 23 July 2007. As of 31 December 2006, there was U.S.$34.6 million outstanding under this credit line.
- Revolving Credit Line Agreement No. 3610/3710 entered into with Okhotsk Mining and Geological Company for U.S.$95 million bearing a floating interest rate of Libor 3m+2% per annum if 90% of the sales proceeds of Okhotsk Mining and Geological Company are deposited in the accounts opened with Sberbank or 11% per annum if the above-mentioned requirement is not fulfilled. This credit line is available until 4 December 2009. As of 31 December 2006, there was $95 million outstanding under this credit line.
- Non-Revolving Credit Line Agreement No. 3608/3652 entered into with Gold of Northern Urals for U.S.$35 million bearing interest of 8% per annum maturing on 23 July 2007. As of 31 December 2006, there was U.S.$35 million outstanding under this credit line.
- Revolving Credit Line Agreement No. 3608/3709 entered into with Gold of Northern Urals for U.S.$58 million bearing a floating interest rate of Libor 3m+2% per annum if 90% of the sales proceeds of Gold of Northern Urals are deposited in accounts opened with Sberbank or 11% per annum if the above-mentioned requirement is not fulfilled. This credit line is available until 11 December 2009. As of 31 December 2006, there was U.S.$37 million outstanding under this credit line.

Under the above facilities, No. 3610/3653 and No. 3608/3652, the Company must ensure that 100% of the proceeds from the sale of precious metals produced by Okhotsk Mining and Geological Company and Gold of Northern Urals be deposited in accounts opened with Sberbank.

Under the terms of its loan facilities with Sberbank, the Company was required to obtain consent for the granting of security interests under its subsequent financing arrangements. During 2006, the Company breached these covenants by pledging collateral to secure its US$100 million loan from Gazprombank without obtaining prior written approval from Sberbank. The Company has indicated its intention to prepay the Gazprombank loan during the course of 2007, and Sberbank has confirmed in writing that, taking into account the planned early redemption during 2007 of the Gazprombank loan, it will not demand early redemption of the Sberbank loans.

Bank Uralsib OJSC

In October and December 2006, Trading House Polymetal concluded two credit line agreements with Bank Uralsib OJSC with a credit limit in the aggregate amount of $20 million:

- Credit Line Agreement No. 0709/06-VL with a credit limit of $10 million bearing interest of 9% per annum maturing on 31 July 2007. This credit line is secured by suretyships of the Company, Serebro Magadana and Serebro Territorii. As of 31 December 2006, there was $10 million outstanding under this credit line.
- Credit Line Agreement No. 0907/06-VL with a credit limit of $10 million bearing interest of 9% per annum maturing on 13 December 2007. This credit line is secured by suretyships of the Company, Magadan Silver and Silver Territory. As of 31 December 2006, there was $10 million outstanding under this credit line.

Alfa-Bank OJSC

In September and October 2006, Trading House Polymetal entered into two revolving credit line agreements with Alfa-Bank OJSC with a credit limit in the aggregate amount of $25 million:

- Credit Line Agreement No. 5277-sk with a credit limit of $10 million bearing interest of 8.3% per annum. The credit line is available until 29 June 2007. This credit is secured by pledges of inventory (ore) of Serebro Magadana and Serebro Territorii, as well as by suretyships of the Company, Serebro Magadana and Serebro Territorii. As of 31 December 2006, there was $10 million outstanding under this credit line.
- Credit Line Agreement No. 5304-sk with a credit limit of $15 million bearing interest of 8.3% per annum. The credit line is available until 29 June 2007. This credit is secured by pledges of equipment of Trading House Polymetal, as well as by suretyships of the Company, Serebro Magadana and Serebro Territorii. As of 31 December 2006, there was $4.9 million outstanding under this credit line.

Contractual Obligations and Commercial Commitments

The following tables summarises the Company's various material contractual obligations and their maturity as at 30 September 2006.

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			($ in millions)		
Contractual obligations:					
Borrowings	384.8	297.7	87.1	—	—
of which					
short-term borrowings	225.6	225.6	—	—	—
long-term borrowings	159.2	72.1	87.1	—	—
Sales of silver subject to minimum and maximum prices(1)	109.0	84.5	24.5	—	—
Sales of future silver production to be sold at prices determined in accordance with London fixing prices at time of sales(2)	560.1	170.2	389.9		
Sales of future gold production to be sold at prices determined in accordance with London fixing prices at time of sales(3)	76.2	24.3	51.9		
Committed capital expenditure(4)	4.3	4.3	—	—	—
Pan American Silver Ltd contingent payment(5)	22.5	2.0	20.5	—	—
Capital lease liabilities	11.3	8.1	3.2	—	—
Total Contractual Obligations	**1,168.2**	**591.1**	**577.1**	**—**	**—**

(1) Calculated using the number of ounces of silver committed to be sold under the relevant minimum/maximum price contract, multiplied by the maximum price per ounce applicable under the relevant contract.

(2) Calculated using the number of ounces of silver committed to be sold under the relevant contract multiplied by the London Bullion Market spot fixing price for silver on 30 September 2006 of $11.55 per ounce.

(3) Calculated using the number of ounces of gold committed to be sold under the relevant contract multiplied by the London Bullion Market spot fixing price for gold on 30 September 2006 of $599.25 per ounce.

(4) This represents capital expenditures committed to purchase mining and processing equipments.

(5) This represents the obligations in respect of the outstanding balance due to P.A.S. Silver (Cyprus) Ltd. with regard to the acquisition of the remaining 20% interest in ZAO Serebro Magadana. Although 50% of the outstanding balance is payable upon the occurrence of closing of this Offering, the information in the table is provided assuming debt service in the absence of this Offering. For more information on this acquisition, see below "—Contingencies and Off-Balance Sheet Arrangements—Acquisition of remaining interest in Magadan Silver".

Balance sheet and liquidity ratios

The following table sets forth the debt to assets ratio and current ratio as at 30 September 2006 and 31 December 2005, 2004 and 2003.

	As at 30 September 2006	As at 31 December 2005	2004 (Restated)	2003
Debt to assets ratio(1)	0.59	0.60	0.64	0.84
Current ratio(2)	0.61	0.69	1.58	0.67

(1) Total debt divided by total assets.

(2) Total current assets divided by total current liabilities.

Debt to assets ratio

The Company's debt to assets ratio remained virtually unchanged at 0.59 as at 30 September 2006 and 0.60 at 31 December 2005. At 30 September 2006 total assets increased by $160.4 million from $511.2 million as at 31 December 2005 to $671.6 million as at 30 September 2006 and total debt increased by $91.4 million from $304.7 million as at 31 December 2005 to $396.1 million as at 30 September 2006. The increase in total assets as at 30 September 2006 was mainly due to increases in inventories, goodwill and property, plant and equipment, net, as a result of the acquisition of the remaining 32.65% interest in OAO Okhotsk Mining and Geological Company, the acquisition of ZAO Yenisey Mining and Geological Company, which holds a mining licence to prospect and evaluate lode gold in the Anenskiy field, and the acquisition of OOO Albazino Resources (development stage enterprise), which holds a mining licence for gold exploration and mining in the Albazinskiy field. The increase in total debt was mainly attributable to a significant increase in short-term debt used to partially refinance the long-term debt, as well as the acquisitions mentioned above.

The Company's debt to assets ratio decreased from 0.64 as at 31 December 2004 to 0.60 as at 31 December 2005. Total assets declined by $44.3 million from $555.5 million as at 31 December 2004 to $511.2 million as at 31 December 2005, while total debt declined by $48.9 million from $353.6 million in 2004 to $304.7 million in 2005. The decrease in total assets in 2005 was mainly attributable to the decrease in loans due from third parties, other current assets and receivables and prepayments from related parties partially offset by an increase in property, plant and equipment, while total liabilities fell as a result of the repayment by the Company of short-term debt due to related parties.

The Company's debt to assets ratio improved from 0.84 as at 31 December 2003 to 0.64 as at 31 December 2004. Total assets increased by $191.0 million from $364.5 million as at 31 December 2003 to $555.5 million as at 31 December 2004, while total debt increased by $48.7 million to $353.6 million in 2004 from $304.9 in 2003. The increase in assets in 2004 was mainly attributable to significant investment in property, plant and equipment, as well as the increase in loans due from third parties, which resulted from the sale of ZAO Zun Hada in December 2004 and its deconsolidation from the Company, following which intra-group loan agreements were recognised as loans due from third parties.

Current ratio

For the nine months ending 30 September 2006 the Company's current ratio decreased from 0.69 as at 31 December 2005 to 0.61 as at 30 September 2006 due to an increase in total current liabilities from $241.3 million to $360.0 million, only partially offset by an increase in total current assets from $168.7 million to $219.7 million. The increase in total current assets was mainly due to the increase in inventories, short-term VAT receivable and prepayments to suppliers. The increase in total current liabilities was largely due to a significant increase in short-term debt. As at 30 September 2006, the total debt to Standard Bank London, including $33.7 million due to be repaid within 12 months as well as the remaining $21.1 million, due to the Company's breach of certain covenants under the facility was classified as short-term debt and included into current portion of long-term debt. See "—Indebtedness—Facility Agreement with ABN Amro Bank N.V.".

The Company's current ratio dropped sharply to 0.69 as at 31 December 2005 from 1.58 as at 31 December 2004 due to a significant decrease in total current assets from $265.4 million in 2004 to $167.7 million in 2005 and an increase in total current liabilities from $167.8 million in 2004 to $241.3 million in 2005. The decrease in total current assets was mainly due to the repayment of the Zun Hada loan and decrease in VAT receivable. The increase in total current liabilities was largely as a result of reclassification as short-term debt of the long-term portion of the Company's debt to Standard Bank London, accelerated due to the Company's breach of certain covenants under the facility. See "—Indebtedness—Facility Agreement with ABN Amro Bank N.V.".

For the year 2004, the Company's current ratio improved significantly from 0.67 as at 31 December 2003 to 1.58 as at 31 December 2004. This was due to an overall increase in total current assets of $135.3 million, from $130.1 million to $265.4 million, while total current liabilities fell by $26.9 million from $194.7 million to $167.8 million. The increase in total current assets was mainly attributable to the increase in loans due from third parties, resulting from the sale of the Zun Hada, as well as the increase in inventories. The decrease in current liabilities was largely due to the restructuring of the Company's debt from short-term to long-term.

Contingencies and Off-Balance Sheet Arrangements

The Company does not engage in off-balance sheet financing activities, and does not have any significant off-balance sheet debt obligations, special purpose entities or unconsolidated affiliates except as described below.

Sales commitments

In accordance with the terms of a syndicated loan agreement, described under "—Liquidity and Capital Resources—Indebtedness—Facility Agreement with ABN Amro Bank N.V.", in December 2004 the Company entered into an off-take agreement under which the Company undertook to sell to the relevant banks all the precious metals produced at its Dukat and Lunnoye mines for the period from 1 January 2005 to 31 December 2009. For more information on this agreement, see above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver".

Acquisition of remaining interest in Magadan Silver

In November 2004, the Company acquired from P.A.S. Silver (Cyprus) Ltd. the remaining 20% in its subsidiary Magadan Silver. The Company paid $21.2 million in cash and will pay up to $22.5 million in contingent future payments. The future payments will be made annually based on the average yearly silver price per ounce in the range of $5.5 per ounce to $10.0 per ounce as described under Note 27 to the audited consolidated financial statements of the Company.

A portion of the liabilities for this contingent consideration amounting to $12.3 million has been recorded in the consolidated financial statements, however the outstanding amount of up to approximately $10.2 million has not been recorded as the outcome of the contingency and the amounts of consideration that will become issuable is not determinable beyond reasonable doubt at the moment. The agreement also contains provisions for early repayment of these payments on the occurrence of certain events, such as a public share offering. In the event of a public offering, the Company would need to pay $10.3 million within 30 days after listing. The Company intends to use a portion of the proceeds of the Offering to pay half of this remaining consideration. For further information on this transaction, see Note 27 to the audited consolidated financial statements of the Company.

Trading with variable interest entity

In January 2004, the Company entered into an agreement with Polyprom, an entity consolidated within the Group in its 2004 financial statements as a variable interest entity under the provisions of FIN 46(R), as the Company was determined to be the primary beneficiary. Following the sale of the Company by ICT's shareholders to Nafta Moskva in November 2005, Polyprom was deconsolidated. For more information on the relationship with Polyprom, see "—Significant Factors Affecting the Company's Results of Operations—Trading with variable interest entity" and "Risk Factors—Risks Relating to the Company's Operations—The Company may be subject to liability for back taxes and related interest and penalties as a result of certain past transactions".

Third parties guarantees

As at 30 September 2006, the Company issued a guarantee for OOO Press-Invest to OOO Instroytekhcom in the amount of $0.5 million for the period up to 31 August 2007. As at 30 September 2006, the Company issued a guarantee for OOO Press-Invest to OOO Barloworld Siberia in the amount of $0.5 million for the period up to 1 November 2007.

Establishment of a strategic alliance with AngloGold Ashanti and joint venture with Mongolrostsvetmet

In September 2006, the Company signed a preliminary agreement for the establishment of a strategic alliance with AngloGold Ashanti in 2007. In accordance with this agreement, each party will own 50% in the strategic alliance to be established. The Company will contribute its shares in CJSC Yenisey Mining and Geological Company and LLC Imitzoloto to the charter capital of the strategic alliance. For further information on this strategic alliance, see "Business—Strategic Alliance and Joint Venture—Proposed Strategic Alliance with AngloGold Ashanti" and "Business—Strategic Alliance and Joint Venture—Joint Venture with Mongolrostsvetmet".

In December of 2006, the Company formed a limited liability company with Mongolrostsvetmet, in which each party holds a 50% interest, in order to pursue a joint venture opportunity in Mongolia. The Company contributed $250,000 in cash in return for its shares in the joint venture. Mongolrostsvetmet made a contribution in kind of assets valued by the parties at $250,000. In future periods, should the joint venture commence operations, the Company may have significant financing activities relating to the joint venture. See "Risk Factors—Risks Relating to the Company's Operations—The Company's proposed strategic alliance with AngloGold Ashanti, joint venture with Mongolrostsvetmet and any future partnerships or joint ventures may limit its future opportunities, may require significant resources and/or result in significant unanticipated losses, costs or liabilities".

Qualitative and Quantitative Disclosure about Market Risks

The Company is exposed to market risks with respect to foreign currency exchange rates, interest rates, the creditworthiness of the counterparties with whom it expects payments under normal commercial conditions and fluctuations in the prices it pays for its raw materials. The Company centrally manages and monitors its exposure to these risks in accordance with its treasury policies by seeking to minimise external financial risks whenever possible without using derivative financial instruments, which are not developed in Russia to the point of being sufficiently cost-effective for mitigating currency and interest rate risk. The Company does not hold or issue derivative financial instruments for trading purposes, other than the sales contracts concerning its future production discussed above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver".

Commodity price risk

Commodity price risk is the risk that the Company's current or future earnings will be adversely impacted by changes in the market prices of gold or silver. Commodity price risk is extremely significant to the Company's results of operations. Since the Company expects the market prices of silver and gold to continue growing in the long-term, it has decided not to hedge its exposure to such risk. In connection with certain financing arrangements, the Company undertook to sell future production of metals at fixed prices or subject to certain price limitations, which had the effect of mitigating exposure to commodity price risk. However, other than the agreements described above under "—Significant Factors Affecting the Company's Results of Operations—Market prices of gold and silver", the Company does not intend to enter into additional sales contracts under fixed price or similar arrangements unless required to do so as part of any financing arrangements.

Foreign currency risk

Currency risk is the risk that the Company's financial results will be adversely impacted by changes in exchange rates to which it is exposed. The majority of its revenues are denominated in U.S. dollars. The majority of its expenses are denominated in roubles, and, as a result, operating profits may be adversely impacted by the appreciation of the rouble against the U.S. dollar. In addition, most of the Company's debt is denominated in U.S. dollars, and accordingly the carrying rouble value of this debt may be affected by the appreciation of the rouble against the U.S. dollar.

Interest rate risk

The Company is exposed to interest rate risk on its borrowings that have a variable interest rate (exposing the Company to the risk of short-term interest fluctuations or "interest cash flow risk"), as well as borrowings that are short-term in nature (exposing its refinancing activities to risks associated with changes in the applicable interest rate). For a description of the Company's indebtedness, see above "—Liquidity and Capital Resources—Indebtedness".

As at 31 December 2006, the Company had total borrowings outstanding of $400.3 million, of which $396.5 million represented bank loans with both variable and fixed interest rates. An aggregate outstanding principal amount of $192.0 million of bank loans bore interest at a rate of LIBOR + 2% per annum. If LIBOR were to increase by 100 basis points, the annual interest payable on these aggregate floating rate borrowings would total $1.92 million.

Critical Accounting Policies

The consolidated financial statements of the Company are presented in accordance with accounting principles generally accepted in the United States ("US GAAP"). The Company and its subsidiaries domiciled in the Russian Federation maintain their accounting records and prepare their statutory financial statements in accordance with RAR.

The consolidated financial statements include the operations of all entities in which the Company directly or indirectly controls more than 50% of voting power and all variable interest entities for which the Company is determined to be the primary beneficiary. Variable interest entities are consolidated if the Company is the primary beneficiary in accordance with FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities ("FIN 46 (R)").

The Company's significant accounting policies are described more fully in Note 2 to the Company's consolidated financial statements. Some of the Company's accounting policies require the application of significant judgement by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgements are subject to an inherent degree of uncertainty and are based on the Company's historical experience, the terms of existing contracts, management, the Company's view on trends in the gold mining industry and information from outside sources.

Management believes that the following critical accounting policies, among others, affect its more significant judgements and estimates used in the preparation of the Company's consolidated financial statements and could potentially impact its financial results and future financial performance.

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, including discussion and disclosure of contingent liabilities. Management's estimates are made in accordance with mining industry practice. Significant areas requiring the use of management estimates relate to determination of mineral reserves, reclamation and environmental obligations, impairment of assets and valuation allowances for deferred tax assets. Actual results could differ from such estimates.

Reporting and functional currency

The Company has established the Russian rouble as its functional currency, considering that the Company runs its operations with reference to the Russian rouble and the management uses the Russian rouble to manage financial risks and their consequences and to assess efficiency and performance. In accordance with Russian legislation, assets and liabilities incurred in foreign currency are subject to recognition in statutory accounts in roubles using the official exchange rate of the CBR at the dates of their occurrence.

Changes of the RUB/U.S.$ exchange rate during a reporting period result in exchange differences recorded in a consolidated income statement under "exchange gains, net".

In preparing its financial statements under RAR, income, expenses, assets and liabilities were calculated at initial exchange rates effective as at transaction dates up to 31 December 2002. On 1 January 2003, all non-monetary assets and liabilities, monetary assets and liabilities and charter capital components were translated into roubles at the exchange rate effective on that day. From 1 January 2003, all non-monetary assets and liabilities are translated at exchange rates effective as at a balance sheet date. Income, expenses, profit and losses are translated into the reporting currency at average exchange rates. Charter capital components are translated at historic exchange rates. The translation currency adjustment (without tax) is recognised in the accounts as an accumulated currency translation adjustment within shareholders' equity.

The U.S. dollar is the reporting currency selected by the Company for purposes of financial reporting in accordance with US GAAP. The transactions and balances in the financial statements have been translated into U.S. dollars in accordance with the relevant provisions of SFAS No. 52, Foreign Currency Translation. Consequently, assets and liabilities are translated at period closing exchange rates. Revenues, expenses, gains and losses have been translated using historical or period average exchange rates as appropriate. Translation differences resulting from the use of these exchange rates have been included as a separate component of shareholders' equity.

The exchange rates for one U.S. dollar were rouble 26.78 at 30 September 2006, rouble 28.78 at 31 December 2005, rouble 27.75 at 31 December 2004 and rouble 29.45 at 31 December 2003. The average exchange rates for the first nine months of 2006 and the years 2005, 2004 and 2003 were rouble 27.34, rouble 28.32, rouble 28.81 and rouble 30.69 per one U.S. dollar, respectively.

The functional currency of the Company is the Russian rouble. All sales proceeds and the majority of the Company's expenses as well as some financial transactions are calculated in the Russian roubles. The U.S. dollar has been selected as the reporting currency of the Company for the purpose of US GAAP financial statements.

Property, plant and equipment

Property, plant and equipment consists of assets directly related to mining and processing of ore and include costs of development of the mining properties, the costs of acquisition or construction of plant and equipment and capitalised interest. Expenditures for major improvements and renewals are capitalised. The cost of maintenance, repairs and replacement of minor items of property is charged to income as incurred. Interest directly attributable to the acquisition or construction of property, plant and equipment is capitalised as a cost of the asset up to the time the asset is put into use. All other interest is expensed as incurred. Gains and losses on the disposal of assets are included in the statement of income in the period of disposal.

Mineral exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proved and probable reserves, the costs incurred to develop such property, including costs to further delineate the ore body and remove overburden to initially expose the ore body, are capitalised.

Depreciation and depletion are computed using the units-of-production method based on the actual production for the year compared with total estimated proved and probable reserves (in thousands of tonnes of gold bearing ore).

Leased property, plant and equipment meeting the criteria of capital lease is capitalised; valued at the lower of asset purchase price and net present value of lease payments. The corresponding part of lease payments is recorded as a liability. Amortisation of capitalised leased assets is computed using the units-of-production method.

Property, plant and equipment are assessed for possible impairment in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined from estimated discounted future net cash flows.

Development cost written off

In general, mining costs are charged to operations as incurred. However, some of the Company's deposits require significant capital expenditures, such as tunnelling in preparation of a new mining area. These expenditures are charged to cost of production in the proportion that the amount of ore extracted bears to the amount estimated to be accessed by the preparation work.

Unamortised balances of capitalised development expenditure are expensed when the area that they cover is depleted, or deemed to be depleted by management. In general, costs of development of the mining properties are allocated to property, plant and equipment, and are charged to cost of sales as discussed above.

Prior to 1 January 2005, the Company capitalised the cost of waste stripping (i.e. the cost incurred to remove waste in connection with the removal of ore). Stripping costs (including any adjustment through the deferred stripping asset) were treated as a production cost and were included in the Company's valuation of inventory.

In March 2005, the Financial Accounting Standards Board ratified the Emerging Issues Task Force consensus 04-06 ("EITF 04-06"), *Accounting for Stripping Costs Incurred during the Production Stage in the Mining Industry*. EITF 04-06 concludes that stripping costs (i.e. the cost incurred to remove waste in connection with the removal of ore) incurred during the production phase of the mine are variable production costs that should be included in the costs of the inventory produced during the period that stripping costs are incurred. The consensus does not change the accounting for stripping costs incurred during the pre-production phase of a mine. The consensus becomes effective for the first reporting period in fiscal years beginning after 15 December 2005. Management is evaluating the impact that this new pronouncement will have on the Company's financial statements.

Reclamation and mine closure

The Company accounts for reclamation, site restoration and closure obligations based on the provisions of SFAS No. 143 Accounting for Asset Retirement Obligations. When the liability is initially recorded, the Company capitalises the cost by increasing the carrying amount of the related long lived asset. Over time, the liability is accreted to its present value each period, and capitalised cost is amortised over the useful life of the related asset.

Accounting for employee stock option plan

Following implementation of the proposed employee stock option plan, described in more detail in the section "Directors and Senior Management—Remuneration of Directors and Senior Management", the Company will account for such plan in its consolidated financial statements in accordance with the provisions of SFAS Statement No. 123(R), Share Based Payments, which requires companies to report on the statement of income the cost of stock-based compensation granted to employees in return for employee services received. The cost is estimated at the fair value of the stock options granted at the date of grant and is recognised over the period during which an employee is required to provide services in exchange for the award—the requisite service period (usually the vesting period), net of estimated forfeitures.

Revenue recognition

The Company recognises revenue upon the delivery of refined gold and silver to off-takers.

USE OF PROCEEDS

The gross proceeds to the Company from the Offering will be U.S.$310,000,000. The net proceeds to the Company from the Offering are estimated to be approximately U.S.$298,400,000 after deduction of underwriting commissions and other fees and expenses payable by the Company. The Company will not receive any of the proceeds from the sale of Securities by the Selling Shareholder in the Offering, or any proceeds from the sale of additional Securities by the Selling Shareholder pursuant to the exercise of the Over-Allotment Option.

The Company intends to use the net proceeds of the Offering primarily in the following ways:

- up to approximately $300 million to repay existing indebtedness;
- approximately $12 million to make payments to AngloGold Ashanti in order to raise the value of the Company's contribution to the proposed strategic alliance to match the value of assets contributed by AngloGold Ashanti; and
- approximately $20 million to repay a portion of the debt owed by the Company to Pan American Silver in connection with the Company's acquisition of the minority interest in Dukat.

In addition, the Company intends to use the remainder of the net proceeds it receives from the Offering to invest in the development of its business and for general corporate purposes.

We have agreed with the Managers that we will not use the proceeds in the manner described above until the Placement Report in respect of the newly-issued Ordinary Shares is registered with the FSFM.

DIVIDEND POLICY

As a Russian holding company, the Company's ability to pay dividends depends upon receipt of dividends and distributions from its subsidiaries and its ability to make dividend payments under Russian law. See "Description of Share Capital and Applicable Russian Legislation". The payment of dividends by the Company's subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and their ability to make, in accordance with relevant legislation, company law and exchange controls, dividend payments to the Company.

To the extent that the Company declares and pays dividends, owners of Ordinary Shares and GDRs on the relevant respective record dates will be entitled to receive dividends payable in respect of Ordinary Shares or, as the case may be, Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreements. Under the Deposit Agreements, the Depositary may charge fees and expenses with respect to distributions of such dividends to GDR holders. Cash dividends (net of withholding taxes, if any) may be paid to the Depositary in any currency and, except as otherwise described under "Terms and Conditions of the Global Depositary Receipts—Foreign Currency Conversion", are converted into U.S. dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses. The Company anticipates that cash resources will be retained for the development of the Company's business and does not expect to make any dividend payments in the foreseeable future. However, the declaration and payment by the Company of any dividends and the amount thereof will depend on the results of the Company's operations, its financial position, cash requirements, acquisition or investment opportunities, prospects, profits available for distribution and other factors deemed to be relevant at the time.

DILUTION

The Company's consolidated net tangible book value at 30 September 2006 was approximately U.S.$27.0 million, resulting in consolidated net tangible book value per Ordinary Share of U.S.$0.10. Consolidated net tangible book value per Ordinary Share represents the amount of the Company's total tangible assets less total liabilities and minority interest, divided by the number of Ordinary Shares outstanding as of 30 September 2006.

Dilution in net tangible book value per Ordinary Share represents the difference between the amount per Ordinary Share paid by purchasers of Ordinary Shares, including in the form of GDRs, in the Offering and the net tangible book value per Ordinary Share immediately after the issuance of such Ordinary Shares, including in the form of GDRs. Following the issuance by the Company of 40,000,000 Ordinary Shares in the Offering (the sale of Ordinary Shares by the Selling Shareholder in the Offering or pursuant to the Over-Allotment Option has no effect on dilution) at an Offer Price of U.S.$7.75 per Ordinary Share and after deducting the estimated underwriting commissions and expenses payable by the Company in connection with the Offering, the Company's net tangible book value as of 30 September 2006, as adjusted, would have been U.S.$325.4 million, or U.S.$1.03 per Ordinary Share. This will represent an immediate increase in net tangible book value of U.S.$0.93 per Ordinary Share to existing shareholders and an immediate dilution of U.S.$6.72 per Ordinary Share to new investors in the Offering, as illustrated by the table below.

	U.S.$
Offering price per Ordinary Share	7.75
Net tangible book value per Ordinary Share as of 30 September 2006	0.10
Increase in net tangible book value per Ordinary Share	0.93
Net tangible book value per Ordinary Share, including in the form of GDRs, after the Offering	1.03
Dilution per Ordinary Share attributable to investors purchasing Securities in the Offering	6.72

Note: Each GDR represents an interest in one Ordinary Share

CAPITALISATION

The following table sets forth the Company's consolidated capitalisation at 30 September 2006 on an actual basis and as adjusted to give effect to the issue of 40,000,000 Ordinary Shares at the Offer Price of U.S.$7.75 per Ordinary Share. The following table should be read in conjunction with "Use of Proceeds", "Operating and Financial Review" and the Company's consolidated financial statements included elsewhere in this Prospectus.

	At 30 September 2006	
	Historical	**As adjusted[1]**
	($ in millions)	
Cash and cash equivalents	3.3	301.7
Short-term debt (including current portion of long-term debt)[2]	297.7	297.7
Long-term debt (net of current portion)	**87.1**	**87.1**
Shareholders' equity		
Share capital (historical issued and outstanding 275,000,000 shares and 315,000,000 as adjusted to reflect issue of 40,000,000 Ordinary Shares, each with par value of RUB 0.2 per share)[3][4]	6.4	6.7
Additional paid-in capital	56.7	354.8
Accumulated other comprehensive income	9.0	9.0
Retained earnings	106.5	106.5
Total shareholders' equity	**178.6**	**477.0**
Total capitalisation	**265.7**	**564.1**

(1) The Company will not receive any of the proceeds from the sale of Securities by the Selling Shareholder in the Offering or pursuant to the exercise of the Over-Allotment Option.

(2) On 4 December 2006, the Company repaid approximately $54.8 million in debt under its loan facility with Standard Bank and entered into a term loan facility with ABN AMRO Bank N.V. Through 31 December 2006, the Company also refinanced approximately $40.4 million in short-term indebtedness under its loan facilities with Sberbank and repaid approximately $63.0 million of loans to Barylite. In January 2007, the Company drew down the remaining $20.0 million in funds available under the ABN AMRO loan facility. See "Operating and Financial Review—Liquidity and Capital Resources—Indebtedness".

(3) The Company's authorised share capital is comprised of 2,400,000,000 ordinary shares with par value of RUB 0.2 per share of which 275,000,000 shares are issued and outstanding at 30 September 2006, given the effect of the stock split effective in December 2006.

(4) The U.S. dollar amount representing the par value of the 40,000,000 Ordinary Shares issued was calculated based on the exchange rate of RUB 26.78 per $1.00, the official exchange rate as reported by the Central Bank of Russia on 30 September 2006.

RELATED PARTY TRANSACTIONS

The following is a summary of the Company's most significant transactions with related parties for the years ended 31 December 2003, 2004 and 2005 and for the nine months ended 30 September 2006. For further details of these transactions, see the Company's audited consolidated financial statements and unaudited interim financial statements appearing elsewhere in this Prospectus.

General

In the ordinary course of its business, the Company has engaged, and continues to engage, in transactions with parties that are under common control with the Company or that are otherwise related parties. Transactions with entities under common control with the Company constitute transactions with parties that have the same beneficial owners as the Company. See "Directors and Senior Management" and "Principal and Selling Shareholder". Other than the transactions with entities that are under common control or otherwise constitute related parties to the Company described herein, the Company did not engage in any other material transactions with related parties during the periods under review.

Russian law requires a company that enters into so-called "interested party transactions" to obtain specific approvals. See "Description of Share Capital and Applicable Russian Legislation—Interested Party Transactions" for a discussion of the relevant procedures. The Company seeks to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with relevant Russian and other legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. See "Risk Factors—Risks Relating to the Company's Operations—If past or future interested party transactions or major transactions in which the Company or its subsidiaries are involved are successfully challenged, they could be invalidated" and "Risk Factors—Risks Relating to the Russian Federation—Russian transfer pricing rules may allow tax authorities to challenge some of the Company's transactions".

Significant transactions with related parties during the years ended 2005, 2004 and 2003 and the nine months ended 30 September 2006 are set out below:

Sale and Purchase Agreements with Polyprom

In 2004, the Company's subsidiaries entered into sales and purchase agreements for the sale of gold and silver with Polyprom. The agreements were entered into to enable export sales of gold and silver and receive more favourable terms of bank financing. Polyprom was a consolidated variable interest entity as the Company was determined to be the primary beneficiary under the provisions of FIN 46(R). Accordingly, all transactions and balances of other Group companies with Polyprom were eliminated on consolidation in 2004. In 2004, sales to Polyprom Trading Limited under these agreements totalled \$30.3 million and resales to third parties by Polyprom totalled \$36.6 million. See "Operating and Financial Review—Significant Factors Affecting the Company's Results of Operations—Trading with variable interest entity" and "Risk Factors—Risks Relating to the Company's Operations—The Group may be subject to liability for back taxes and related interest and penalties as a result of certain past transactions".

Loans from Nomos Bank

From 2003 to 2005, the Company and certain of its subsidiaries entered into loan agreements with Nomos Bank, an equity investee of ICT, the Company's previous beneficial owner. The loans were received in the ordinary course of business to finance capital expenditures and working capital of the Company and its subsidiaries. The terms of the loans were agreed on commercial terms corresponding to the then prevailing market conditions. See Notes 17 and 19 to the Company's audited consolidated financial statements.

Sales Contracts with Nomos Bank

In 2003, 2004, 2005, subsidiaries of the Company entered into sales and purchase agreements for the sale of gold and silver with Nomos Bank. These sales and purchase agreements were entered into as a part of the bank loan facility provided by Nomos Bank. Sales prices and other material conditions of contracts were generally determined on an arms-length basis. See "Risk Factors—Risks Relating to the Company's Operations—The Group may be subject to liability for back taxes and related interest and penalties as a result of certain past transactions" and "Risk Factors—Risks Relating to the Russian Federation—Russian transfer pricing rules may allow tax authorities to challenge some of the Company's transactions". Total sales to Nomos bank amounted to \$56.4 million, \$33.4 million, and \$33.1 million in 2005, 2004, and 2003 respectively. The balance sheets of the Company as of 31 December 2004 and 2003 include trade receivables from Nomos Bank under these contracts in the amount of $25.8 million and $16.0 million respectively. These receivables were settled in full against loans obtained from Nomos Bank. See "Risk Factors—Risks Relating to the Company's Operations—The Group may be subject to liability for back taxes and related interest and penalties as a result of certain past transactions.

Loans to ZAO ICT

The Company's sole shareholder prior to November 2005 was ZAO ICT, which, together with its subsidiaries, formed the ICT group. In November 2005, the ultimate beneficial owners of the Company sold their interests to affiliates of the Selling Shareholder and, in November 2006, Nafta Moskva (Cyprus) Limited became the sole shareholder of the Company. Mr. V. N. Nesis, the General Director of Polymetal, has close relationships with the owners of ZAO ICT and, accordingly, transactions with companies of the ICT group continue to be disclosed in the Company's financial statements as related party transactions.

In 2005, the Company entered into a loan agreement with ZAO ICT. The interest rate corresponded to market conditions. At 31 December 2005, the amount due from ICT was $13.7 million. The loan was used by ICT for general corporate purposes and repaid in full in 2006.

Loans from Subsidiaries of ICT

In 2003 and 2004, the Company received loans from Accord-Invest, Linex, Recital and Daniz, all subsidiaries of ICT. Loans were used to finance capital expenditures, acquisitions of shares in subsidiaries, and working capital. Interest rates were set at or below the prevailing market rates. At 31 December 2004 the amounts of loans outstanding to these companies were: $83.1 million (Accord-Invest); $18.1 million (Linex); $10.9 million (Recital). For further details on such loans, see Notes 17 and 19 to the Company's audited consolidated financial statements. All of the loans were repaid in full before 31 December 2005.

Supply Contracts with Geotekhservice

In 2003-2005, various subsidiaries of the Company entered into supply and transportation services contracts with Geotekhservice, an affiliate of ICT. Geotekhservice supplied the Company and its subsidiaries with equipment, materials, consumables and spares necessary in the normal course of business. Geotekhservice's compensation under the transportation services contracts was set at a fixed rate per distance run by the supplier. Geotekhservice was selected as a supplier based on its reliability and the prices of equipment, materials, consumables and spares and other material conditions of the supply agreements were set at market terms. Geotekhservice was able to provide better terms than comparable suppliers due to its size and its experience serving as a supplier to other related and unrelated parties. Accounts payable to Geotekhservice in the amount of $2.0 million and $0.6 million as of 31 December 2005 and 2004, respectively, arose in the ordinary course of executing supply contracts and were settled in full.

Loans to Geotekhservice

LLC Polymetal Finance, a subsidiary of the Company, provided loans to Geotekhservice in 2004 and 2005 as a means to finance its working capital since significant amounts of inventory needed to be maintained by the supplier. Loans were provided at prevailing market terms and were negotiated on an arms-length basis. The amount of loans outstanding to Geotekhservice was $5.0 million and $3.8 million as of 31 December 2004 and 2003 respectively. Loans were repaid in full in the ordinary course of business.

Supply Contracts with and Loans from Press-Invest

In 2004-2006, various subsidiaries of the Company entered into supply contracts with Press-Invest, an affiliate of ICT. Press-Invest supplied the Company and its subsidiaries with imported equipment in the normal course of business. Press-Invest was selected as a supplier based on its reliability and prices of its equipment, and other material conditions of the agreements were set on an arms-length basis. Accounts payable to Press-Invest in the amount of $0.2 million and $1.7 million as of 31 December 2005 and 2004 respectively arose in the ordinary course of executing supply contracts and were settled in full.

In April 2004, the Company entered into an interest-free loan agreement with Press-Invest, a related party for the amount of $22.0 million. The loan was repaid in full in 2004.

Purchase of Securities and Loan from Daniz

In 2003, Gold of Northern Urals, a subsidiary of the Company, entered into a sale and purchase agreement with Daniz, an affiliate of ICT, to buy notes issued by North-West Invest Prom. The notes were acquired at prevailing market price to take advantage of the positive market environment for domestically listed debt securities. The notes were duly delivered in 2004 and subsequently sold in 2005 in an arms-length transaction. There is an advance to Daniz in the amount of $20.4 million on the Company's balance sheet for year ended 31 December 2003.

In 2004, Gold of Northern Urals entered into a sale and purchase agreement to buy bonds, issued by the Company, from Daniz. The payment obligation of Gold of Northern Urals under this agreement was set off against the obligation of Daniz to return to Gold of Northern Urals the advance paid to Daniz in excess of the advance payable under the agreement for the sale and purchase of notes referred to above. As a result of these transactions, Daniz delivered bonds in the amount of $8.3 million to Gold of Northern Urals.

In 2005, the Company entered into an interest-free loan agreement with Daniz and was granted a loan in the amount of $9.7 million. The loan was repaid in full in 2005.

Loans from Barylite Services Limited

In September and October of 2006, Okhotsk Mining and Geological Company and Trading House Polymetal entered into loan agreements with Barylite Services Limited ("Barylite"), an affiliate of the Selling Shareholder. The loans were granted to assist the Company in extending the term structure of its bank debt. The interest rates were set below the prevailing market rates at 3% and 4% per annum, respectively. At 30 September 2006 the amount outstanding was $63.0 million. The Barylite loans were fully repaid in December 2006, except for a payment of approximately $0.2 million, which was paid in January 2007.

Disposal of Subsidiaries

In September 2005, the Company sold to OOO Development Corporation, a related party, all of its interests in the following subsidiaries:

- 100% of shares of Kurilskaya GGK, a subsidiary holding the licence for development of the Prasolovskoye field for $0.3 thousand;
- 100% of shares of Olginskaya GGK, a subsidiary holding the licence for development of the Olginskaya gold prospective area for $0.01 million; and
- 100% of shares of Imitzoloto, a subsidiary holding the licence for development of the Aprelkovsko-Peshkovsky mining unit for $0.02 million. In June 2006, the Company reacquired from an unrelated party 100% of shares in Imitzoloto for the consideration of $0.05 million.

Concurrently with the sale of the subsidiaries as described above, the Company sold its 50% stake in Yeniseyskaya Investment Company for $1.0 million.

Purchase of Shares in Okhotsk Mining and Geological Company

In July 2006 the Company purchased from Accord-Invest, an affiliate of ICT, 30.76% of shares of Okhotsk Mining and Geological Company for $73.9 million. The seller had previously bought this stake from parties unrelated either to the seller or to the Company. There was no material difference between the price paid by the seller to unrelated parties and the price received by the seller from the Company. The price paid by the Company was deemed to be fair and reasonable by an internationally recognised independent appraiser.

Share Issuance by Okhotsk Mining and Geological Company

In 2004 Okhotsk Mining and Geological Company, the Company's subsidiary, undertook a share issuance in the amount of $33.4 million in accordance with the Russian legislation. At the moment of the share issuance there were four shareholders in Okhotsk Mining and Geological Company—the Company (the controlling shareholder) and three unrelated minority shareholders. The resolution to undertake a share issuance was approved by the majority of minority shareholders. At the time of the issuance, the Company and two minority shareholders subscribed for the additional shares, and the third shareholder refused to fund its portion of the issuance. By 2006 all of the minority shareholders sold their shares to other parties.

Sale and Purchase of Shares in Gold of Northern Urals

In September 2003, Gold of Northern Urals issued preferred shares. The proceeds from the issuance totalled $20.8 million and the entire issue was sold to Nomos Bank. According to the terms of the issuance, the preferred shares had a liquidation preference of 50% of stated par value and conveyed dividend rights equal to those of holders of common shares. As a result of the issuance, the Company's effective ownership interest in Gold of Northern Urals decreased from 99.95% to 83.33%.

The transaction was accounted for as a disposal of an interest in a consolidated subsidiary, and the Company recognised a gain on disposal of $13.8 million, calculated as the difference between the proceeds from the preferred share issuance and the carrying value of the disposed interest.

In October 2005, the Company acquired these preferred shares from an investee of shareholders of ZAO ICT for $49.6 million. As a result of this transaction, the Company's effective ownership interest in Gold of Northern Urals increased from 83.33% back to 99.95%. This transaction was recorded using the purchase method of accounting and the difference between purchase price and the fair value of the acquired share of net assets has been recorded as mineral rights and totalled $41.8 million (see Note 28 to the Company's audited consolidated financial statements).

In October 2006, the Company purchased 0.03% of ordinary shares of Gold of Northern Urals from LLC Accord-Invest, a related party, for the consideration of $0.02 million.

Other

For further information regarding the related party transactions that the Company entered into over the course of the last three years, see Notes 6, 7, 15, 17, 19 and 28 to the Company's audited consolidated financial statements and Notes 5, 6, 12, 14, 16 and 24 to the Company's unaudited interim financial statements, each of which is included elsewhere in this Prospectus.

PRINCIPAL AND SELLING SHAREHOLDER

The following table sets forth information regarding the ownership of the Company's shares as of the date hereof and as adjusted to reflect the Offering and the exercise of the Over-Allotment Option in full:

	Ordinary Shares owned before the Offering		Ordinary Shares owned after the Offering, assuming the Over-Allotment Option is not exercised[(1)]		Ordinary Shares owned after the Offering, assuming exercise of the Over-Allotment Option in full[(1)]	
Owner	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Nafta Moskva (Cyprus) Limited	275,000,000	100.0%	237,000,000	75.2%	227,000,000	72.1%
Public float	—	—	78,000,000	24.8%	88,000,000	27.9%
Total	**275,000,000**	**100.0%**	**315,000,000**	**100.0%**	**315,000,000**	**100.0%**

(1) Assumes the sale by the Selling Shareholder of 38,000,000 Ordinary Shares in the Offering without regard to the Over-Allotment Option.

None of the Company's shareholders has voting rights different from any other holders of the Company's Ordinary Shares.

The Selling Shareholder was incorporated in Cyprus on 20 March 2006 with registered number HE 173950 under the Companies Law (Cyprus), Cap. 113, as a limited liability company with the name Nafta Moskva (Cyprus) Limited. The principal legislation under which the Selling Shareholder operates is the Companies Law (Cyprus), Cap. 113, and the regulations and orders made thereunder. The registered office and principal place of business of the Selling Shareholder is at Theklas Lyssioti, 29, Cassandra Centre, 2nd Floor, Flat/Office 201-202, P.C. 3030, Limassol Cyprus (Tel. No. +357 25361857).

The Selling Shareholder is ultimately controlled by Mr. Suleyman Kerimov, who currently serves as a member of the State Duma, the lower chamber of the Russian Parliament. Mr. Kerimov holds 2,500 non-voting shares, constituting 50% of the share capital of the Selling Shareholder and 100% of the share capital of a Russian company ZAO "FK Kapital". The latter, in its turn, holds 99% of the share capital of OOO "Nafta Moskva",[(1)] the entity that holds 2,500 voting shares of the Selling Shareholder, constituting the remaining 50% interest in the Selling Shareholder. As a result, Mr. Kerimov indirectly beneficially owns 99.5% of the Company's Ordinary Shares. See "Risk Factors—Risks Relating to the Company's Operations—The Company's competitive position and future prospects depend on the expertise of certain key individuals. A change of control from the Company's controlling shareholder could lead to an event of default and acceleration under the Company's financings". In connection with the acquisition of Polymetal by an affiliate of the Selling Shareholder in November 2005, an unrelated party purchased a 50% beneficial interest in Polymetal's share capital through an affiliate of Nafta Moskva (Cyprus) Limited. This affiliate of Nafta Moskva (Cyprus) Limited repurchased such beneficial interest on 19 April 2006. The registered address and principal place of business of OOO "Nafta Moskva" is 40 Bolshaya Ordynka Street, Building 4, Moscow, 109017, Russian Federation (Tel. No. +7 (495) 544-5444). OOO "Nafta Moskva" is part of a group of Russian privately-owned financial investment companies, which has numerous investments in public and private-owned enterprises, including Gazprom and Sberbank. OOO "Nafta Moskva" provides support for the growth and development of its portfolio companies, including Polymetal, through assistance with acquisition strategy, financial support and board-level expertise.

To the Company's knowledge, there are no arrangements in place, the operation of which may at a subsequent date result in a change in control of the Company.

For a description of the ownership interests of the Company's directors and senior management in the Company, see "Directors and Senior Management—Interests of the Company's Directors and Senior Management".

(1) The remaining 1% of the share capital of OOO "Nafta Moskva" is owned by the Chairman of the Company's board of directors, Mr. Alexander Mosionzhik.

DIRECTORS AND SENIOR MANAGEMENT

Directors

The full name, respective years of birth, position and business address of each of the directors of the Company are as follows:

Name	Year of birth	Position	Address
Alexander I. Mosionzhik	1961	Chairman of the Board of Directors	40 Bolshaya Ordynka Street Building 4 Moscow, 119017 Russian Federation
Vitaly N. Nesis	1976	Member of the Board of Directors, Chief Executive Officer	Prospect Narodnogo Opolcheniya 2 Saint Petersburg, 198216 Russian Federation
Nikolai Y. Belykh	1974	Member of the Board of Directors	40 Bolshaya Ordynka Street Building 4 Moscow, 119017 Russian Federation
Andrei M. Rodionov	1968	Member of the Board of Directors	40 Bolshaya Ordynka Street Building 4 Moscow, 119017 Russian Federation
Pavel S. Gratchev	1973	Member of the Board of Directors	40 Bolshaya Ordynka Street Building 4 Moscow, 119017 Russian Federation
Jonathan Best	1948	Member of the Board of Directors	Prospect Narodnogo Opolcheniya 2 Saint Petersburg, 198216 Russian Federation
John O'Reilly	1945	Member of the Board of Directors	Prospect Narodnogo Opolcheniya 2 Saint Petersburg, 198216 Russian Federation

Brief biographies of the Company's directors are set out below.

Alexander I. Mosionzhik has served as the Chairman of the Company's board of directors since November 2005. He currently serves as Chairman of the Board of Directors of OOO "Nafta Moskva". Prior to joining OOO "Nafta Moskva", Mr. Mosionzhik held several positions in the field of finance, economics and banking in Moscow, including the position of financial director at the investment company Alfa-Eco. He received his degree in applied mathematics from the Tula Technical Institute in 1983 and later received his Ph.D. in technical sciences from the Civil Aviation Institute of Moscow in 1990.

Vitaly N. Nesis has served as the Company's Chief Executive Officer (General Director) since 2003 and as a member of the Company's board of directors since June 2004. In 1995, Mr. Nesis graduated from the Saint Petersburg University of Economics and Finance with a degree in economics and, from Yale University in 1997, receiving his degree in economics. From 1997 to 1999, Mr. Nesis worked as an analyst for Merrill Lynch in New York and from 1999 to 2000 for McKinsey & Co. in Moscow. During 2000, he was the strategic development director at OJSC Ulyanovsk Automobile Plant and from 2001 to 2002 he was a director of the investment planning department in OJSC SUAL-Holding. From 2002 to 2003, he was an executive director and subsequently the general director of OJSC Vostsibugol, a major coal mining company based in eastern Russia.

Nikolai Y. Belykh has served as a member of the Company's board of directors since November 2005. He currently serves as the General Director and member of the board of directors of OOO "Nafta Moskva".

Mr. Belykh graduated from the Moscow Commercial University with a degree in world economics in 1995. From 1995 to 1999, Mr. Belykh was the head of the sugar department in LLC Alfa-Eco and from 1999 to 2000, he was a deputy commercial director at OJSC Holding Company Kuban-Sugar. During 2001, Mr. Belykh was the head of the resources department at OJSC Nafta Moskva and from 2002 to 2005, he was the head of projects division of the investment department and the head of the development department at OJSC Gas and Oil Company Nafta Moskva. He was appointed General Director of OOO "Nafta Moskva" in 2006.

Andrei M. Rodionov has served as a member of the Company's board of directors since November 2005. He currently serves as Financial Director of OOO "Nafta Moskva". Mr. Rodionov graduated from the Yaroslavl High Military Financial School with a degree in economics. From 1994 to 1995, Mr. Rodionov was a chief accountant and financial director at TOO Ankor and from 1995 to 1997, he was the head of the department of finance planning and analyses at AOZT Alfa-Eco. From 1997 to 1999, he was the mergers and acquisitions director and financial director at CJSC Vremya and from 1999 to 2000, Mr. Rodionov was director of finance and deputy general director at CJSC FTK Vremya. From 2000 to 2003, Mr. Rodionov was a director of the finance and economics department at Teboil in Helsinki, Finland. He was appointed financial director of OJSC Gas and Oil Company Nafta Moskva in 2003, a position he held until 2005, when he was appointed financial director at OOO "Nafta Moskva".

Pavel S. Gratchev has served as a member of the Company's Board of Directors since December 2006. He currently serves as Chief Legal Counsel and Executive Director of OOO "Nafta Moscow". Mr. Gratchev graduated from Trieste University (Italy) in 1997 and Saint Petersburg State University in 1998, receiving his law degree from both universities. From 1998 to 2006, Mr. Gratchev worked as Director and Managing Partner of the Moscow Office of Pavia e Ansaldo, a major Italian law firm.

Jonathan Best has served as an independent member of the Company's Board of Directors since December 2006. Mr. Best has more than 30 years' experience in the mining industry. During 2006, he served as the interim CEO of Trans Siberian Gold. Prior to that, Mr. Best worked as the CFO and was an Executive Director at AngloGold Ashanti from 1998–2005. He received his MBA from the University of Witwatersrand (South Africa). Mr. Best is an Associate of the Chartered Institute of Management Accountants and the Chartered Institute of Secretaries and Administrators.

John O'Reilly has served as an independent member of the Company's Board of Directors since January 2007. Mr. O'Reilly received his Bachelor's degree in metallurgy from Imperial College, London University in 1966 and a M.Sc. in mineral process design from the same university in 1967. Mr. O'Reilly joined Rio Tinto Plc in 1987 and from 1993 to 1998, he served as Chief Executive at Lihir Gold Limited in Papua New Guinea. From 1998 to 2005 Mr. O'Reilly was the head of Gold and Other Minerals and later head of Technology at Rio Tinto Plc. Mr. O'Reilly holds several directorship positions in mining and engineering companies, including Lion Selection Group Ltd, AuSelect Limited, Indophil Resources NL, Cambrian Mining plc and Ausenco Ltd.

The terms of the Directors expire on the date of the Company's next annual general shareholders' meeting, which will take place in the first half of 2007.

None of the above directors has any family relationship with any other director or with any member of senior management.

Senior Management

Members of the Company's senior management, and their respective years of birth and positions as of the date hereof, are as follows:

Name	Year of birth	Position
Vitaly N. Nesis	1976	General Director (Chief Executive Officer)
Igor V. Venatovsky	1948	First Deputy General Director (Chief Operating Officer)
Sergey A. Cherkashin	1962	Deputy General Director of Economics and Finance (Chief Financial Officer)
Vladimir T. Ryabukhin	1946	Deputy General Director for Mineral Resources
Alexander A. Zarya	1949	Deputy General Director for General Matters
Valery N. Tsyplakov	1955	Managing Director of Polymetal Engineering
Igor I. Kapshuk	1972	Head of Legal Department
Yuri E. Malakh	1959	Deputy General Director for Business Development
Maxim N. Kuzemchenko	1980	Managing Director of Trading House Polymetal
Andrey Y. Zheltovsky	1971	Deputy General Director for Human Resources and Public Relations
Edward V. Kokorev	1968	Deputy General Director for Capital Markets
Victor N. Demeshik	1959	Managing Director of Silver Territory and Magadan Silver
Andrey V. Novikov	1970	Managing Director of Northern Urals Gold
Sergey G. Antipin	1965	Managing Director of Okhotsk Mining and Geological Company

Each of the members of senior management in the table above can be contacted at the Company's headquarters at Prospect Narodnogo Opolcheniya 2, Saint Petersburg, 198216, Russian Federation.

Brief biographies of senior management are set out below. For the biography of Mr. Nesis, see "—Directors", above.

Igor V. Venatovsky is the Company's Chief Operating Officer and has been with the Company since its inception. Mr. Venatovsky graduated from the Tashkent Polytechnical Institute with a degree in mine engineering and hydrogeology. From 1971 to 1995, Mr. Venatovsky worked at the Krasnokholmskgeology Association as an engineer and later as its chief executive officer. From 1995 to 1997, Mr. Venatovsky was General Director at Bashkirskaya Gold Producing Company and from 1997 until 1999 he was general director at LLC Olginskaya Mining and Geological Company. He was appointed as Chief Operating Officer of Polymetal in 2000.

Sergey A. Cherkashin is the Company's Chief Financial Officer, a position he has held since February 2005. Mr. Cherkashin graduated from the Moscow Institute of Physics and Technology with a degree in applied mathematics in 1985 and after university worked in aerospace research for NPO Energy in Korolev. Mr. Cherkashin also attended business school at the University of Hartford, specialising in accounting. Following business school, he worked as a consultant for AT Kearney (Moscow) from 1996 to 1997. Mr. Cherkashin then moved into industry, where he has held several positions in the fields of food processing and machine building. These positions include: CFO at Timashevsk Dairy, sales director at Ulyanovsk Automobile Plant and deputy general director of development at Volgograd Dairy No. 3, and served as a member of the board of directors of OJSC Meat-Packaging Plant and Volgograd Dairy No. 3..

Vladimir T. Ryabukhin is the Deputy General Director for Mineral Resources, a position he has held since April 2004. Mr. Ryabukhin graduated from the Tomsk Polytechnical Institute with a certificate in prospecting and exploration of radioactive ore deposits and received a Ph.D in geology from the All-Soviet Union Geological Institute in 1978. From 1989 to 1992, Mr. Ryabukhin worked for Krasnokholmsk geologia Production Geological Amalgamation in Tashkent, Uzbekistan, and from 1992 to 1998 he worked as chief geologist at Nevskgeologia in Saint Petersburg. In 1998 he joined Polymetal as one of its founders.

Alexander A. Zarya is the Deputy General Director for General Matters, a position he has held since May 2004. Mr. Zarya graduated from the Leningrad Institute of Aeronautic Instrument Engineering with a degree in electrical engineering. Prior to 1991, Mr. Zarya worked in the Central Devices Research Institute of the USSR Ministry of General Machine Building. From 1991 to 1995, he served as the general director of Research and Production Association Kvarts in Saint Petersburg. From 1995 to 1997, he was a deputy general director at LLC Ulyanovka, a company engaged in procurement for gold mining enterprises. From 1998 to 1999, Mr. Zarya was a director of ZAO Zun Khada's branch in Saint Petersburg and later, in 1999 he joined the Company as the head of the planning and economic department and deputy general director of finance and economics, positions he held prior to his present position.

Valery N. Tsyplakov is the Managing Director of Polymetal Engineering, a position he has held since June 2004. Mr. Tsyplakov graduated from the Moscow Engineering and Physical Institute as a specialist in experimental nuclear physics. He holds a Ph.D. in physics and mathematics. Mr. Tsyplakov worked as engineer, chief engineer and research engineer for the Plasma Physics Chair of the Moscow Engineering and Physical Institute from 1978 to 1988, and worked at the Physic Institute at Denmark's Orhus University from 1986 to 1987. From 1988 to 1993, he served as head of department at the All-Soviet Union Scientific Institute of Automatics, and from 1993 to 1999 he held several management positions in various companies, including head of the foreign economic department at TOO Firm Kare, leading specialist at AOZT Narodny Kapital and President of OOO Rendzh. From 1999 to 2000, Mr. Tsyplakov worked as deputy general director for construction at CJSC IST-M. He joined Polymetal in 2000, serving as Deputy Head of Production and the Technical Department, Head of the Technological Research Department and Deputy General Director for Mineral Resources, Design and Technology and General Director of Polymetal Engineering, prior to being appointed to his present position.

Igor I. Kapshuk is the Head of the Legal Department, a position he has held since July 2005. In 1995, Mr. Kapshuk graduated from the Irkutsk State University with a degree in law. Since graduation, Mr. Kapshuk has held several legal positions. From 2001 to 2002, Mr. Kapshuk was a litigation counsel and deputy head of legal department at OJSC Vostsibugol, from 2002 to 2003 he was head of the litigation division at the Irkutsk branch of CJSC SUEK-Baikal-Ugol and during 2003 he was deputy head of the legal department and the head of the litigation division at the Irkutsk branch of OJSC SUEK. In 2003, Mr. Kapshuk started as Deputy Head of the Legal Department of the Company until he was promoted to his present position

Yuri Y. Malakh is the Deputy General Director for Business Development, a position he has held since April 2006. Mr. Malakh graduated from the Kazan State University with a degree in radio physics. From 1986 to 1994, Mr. Malakh worked for the Kazan branch of the USSR Academy of Science. From 1994 to 1996, he was a general director of the Joint Russian-Polish Enterprise Polteks and from 1996 to 2000 he was a vice-president at AOZT Spektra. From 2000 to 2001, he served as head of the IT department of JSC Oil and Gas Company Slavneft. From 2001 to 2003, he was the director of the All-Soviet Union Association Tyazhpromexport. From 2003 to 2004, he was the Russian co-director of the Russia-EU Energy Technologies Centre. He joined the Company in 2004, serving as Deputy General Director for Supply Chain Management, prior to being appointed to his present position.

Maxim N. Kuzemchenko is the Managing Director of Trading House Polymetal, a position he has held since September 2005. Mr. Kuzemchenko graduated from the Tomsk State University of Management Systems and Radio Electronics as a specialist in information systems and electronic instruments and devices. From 2002 to 2003, he worked as the head of the planning and control department and deputy director for supplies at the coal company Kuzbassugol, and from 2003 to 2004, he was the deputy director for supplies at OJSC Severstal-Resource. From 2004 to 2005, Mr. Kuzemchenko held a position of the first deputy general director and deputy chairman of the supervisory board at OJSC Kharkov Tractor Plant in the Ukraine and later in 2005 he was the director of finance planning and monitoring department of an asset management company Castle Finance. In 2005 he worked as director for economics at OJSC The Baltics Plant, prior to being appointed to his present position.

Andrey Y. Zheltovsky is the Deputy General Director for Human Resources and Public Relations, a position he has held since July 2006. Mr. Zheltovsky graduated from the Irkutsk State University with a degree in history in 1993. From 1994 to 1997, he worked as chief specialist of the Committee for Public Relations for the Irkutsk Region Administration. From 1997 until 1999, he worked as assistant to the public relations director of Individual Enterprise San-Roma. From 1999 to 2002, he was head of the public relations department at OAO Vostsibugol, and from 2002 to 2005 he was deputy branch manager for public relations at ZAO SUEK-Baikal-Ugol. He joined Polymetal in 2005, serving as Director for Public Relations and Regional Authorities Relations, prior to being appointed to his present position.

Edward V. Kokorev is the Company's Deputy General Director for Capital Markets, a position he has held since October 2006. Mr. Kokorev received an MBA from the Wharton School of the University of Pennsylvania in 1998 and a degree in applied mathematics from Novosibirsk State University in 1991. Prior to joining the Company, held various management positions, including as a Director at Trust Investment Bank in Moscow and as a General Director at Aurora Finance. From 1998 to 2001, Mr. Kokorev worked as an Associate at Goldman Sachs Bank in Zurich.

Victor N. Demeschik is the Managing Director of Silver Territories and Magadan Silver, a position he has held since July 2006. In 1982, Mr. Demeshik graduated from the Irkutsk Polytechnical Institute with a degree in the technology and complex mechanisation of underground development deposits of mineral resources. He also completed specialised management training at the New York International Institute in 1995 and the Russian Management Institute at the Federal Academy of Economics in 1997. In 1982, Mr Demeschik was appointed as a mining foreman at the Azei Coal Mine and was promoted to mining superintendent in 1987. In 1990, he was appointed as the chief engineer at the Mugun strip coal mine and was appointed the mine manager at Mugun in 2000, a position he held prior to this present position.

Andrey V. Novikov is the Managing Director of Northern Urals Gold and the General Director of Northern Urals Mining Company, positions he has held since April 2004. In 2002, Mr Novikov received a degree in accounting from the Baikal University of Economics and Law. After studying at the Irkutsk Polytechnical Institute, he was appointed as a mining foreman at the Tulun strip coal mine. From 1992-1997, he held a series of positions at the mine, including: mining shift boss, blasting superintendent, ore mining superintendent and head of mine planning. In 1997, Mr. Novikov was appointed deputy general director at the Tulun mine. He was appointed the general director of OJSC Tulunsky strip coal mine in 1997, a position he held until 2004 when he was appointed to his present positions.

Sergey G. Antipin is the Managing Director of Okhotsk Mining and Geological Company, a position he has held since July 2004. In 1987, Mr. Antipin graduated from the Irkutsk Polytechnical Institute with a degree in enrichment engineering. In 2000, he received a second degree in finance from the Novosibirsk State Academy of Economics and Law. In 1986 he was appointed as a senior laboratory assistant at Irgiredmet. In 1987, he was appointed as the shift boss at Deputatsk tin mine's concentrator in Yakutia. Over the next decade, Mr. Antipin held numerous positions at Deputatskiy Mining and Processing Complex, including: head of the research laboratory (1990-1992), milling superintendent (1992-1994) and chief processing engineer (as of 1994). In 1998, he was appointed as the head of the refining section at the Kolyma Refinery. In 2001, Mr. Antipin was appointed managing director of Silver Territory. In 2003, Mr. Antipin was appointed the first deputy general director of Okhotsk Mining and Geological Company, prior to being appointed to his present position.

None of the above members of senior management has any family relationship with any director or with any other member of senior management.

Remuneration of Directors and Senior Management

Members of the board of directors of the Company do not receive compensation for service as members of the board of directors, nor is any director party to any service contract with the Company where such contract provides for benefits upon termination of employment. The Company intends to enter into service agreements with the independent members of the board of directors which will provide for remuneration of approximately $180,000 for each independent director per annum, subject to approval of the sole shareholder of the Company. The Company also intends to provide for directors' and officers' liability insurance for each of its directors with a coverage limit of $50 million.

For the year ended 31 December 2005 and the nine months ended 30 September 2006, members of the senior management received remuneration of RUB 9,147,000 (approximately $0.3 million) and RUB 30,009,963 (approximately $1.1 million) including salary and bonuses. Employment contracts with the Company's senior management do not provide for special benefits upon termination of employment. In addition, the Company does not provide pension, retirement or similar benefits to its senior management.

The Company has adopted an employee stock option plan for a period of five years, following the completion of the Offering. Pursuant to the terms of the proposed plan, the Company's employees, including certain members of management and executives of the Company will at the decision of the Board of Directors, in the aggregate, receive options to purchase Ordinary Shares in an amount up to 5% of the Company's outstanding share capital.

Interests of the Company's Directors and Senior Management

Alexander Mosionzhik, the Chairman of the Company's board of directors, owns 1% of the share capital of the Company's indirect shareholder, OOO "Nafta Moskva", and thus beneficially owns 0.5% of the share capital of the Company. Other than such interest held by Mr. Mosionzhik, none of the members of the Company's board of directors or senior management owns any of the Company's shares as of the date of this document, nor will own any of the Company's shares immediately following the Global Offering. None of the members of the Company's board of directors or senior management has any options over its shares.

Certain members of the Company's board of directors have direct and beneficial interests and hold positions in management bodies in companies with which it has engaged in transactions, including those in the ordinary course of business. Save as described in this section entitled "Directors and Senior Management" and in "Related Party Transactions", there are no potential conflicts of interest between any duties to the Company, of the members of the Board of Directors and members of Management and their private interests and/or other duties. Under Russian legislation, certain transactions defined as "interested party transactions" require approval by the Company's disinterested directors or shareholders. See "Description of Share Capital and Applicable Russian Legislation—Interested Party Transactions".

Corporate Governance

The Company complies in all material respects with Russian corporate governance practices which are applicable to it. On 28 December, 2006, the Company's board of directors adopted a number of regulations relating to its corporate governance, including internal regulations determining the formation and operation of certain committees of the Company's board of directors.

Audit Committee

The Company's audit committee consists of three members: Jonathan Best, Andrei Rodionov and Pavel Gratchev. The committee is chaired by an independent director, Jonathan Best. The Company's audit committee shall consist of not less than three members with such members' election requiring the affirmative vote of the majority of the Company's board of directors' members present at a meeting or participating in an absentee voting. The audit committee must be chaired by an independent director and shall convene as often as necessary, but in no instance shall such committee meet less than once every three months. The audit committee is authorised to carry out the following functions relating to the control of the Company's financial and business operations:

- to evaluate the Company's potential auditors and to prepare recommendations for its board of directors in connection with the election of the auditor;
- to prepare recommendations for the Company's board of directors on the fees of auditors and the scope of services to be provided by auditors;
- to assess the auditors' reports; and
- to review the Company's internal controls procedures and make appropriate reports and recommendations to the Company's board of directors.

Remuneration and Nomination Committee

The Company's remuneration and nomination committee consists of John O'Reilly, Vitaly Nesis and Alexander Mosionzhik. The committee is chaired by John O'Reilly. The Company's remuneration and nomination committee shall consist of not less than three members with such members' election requiring the affirmative vote of the majority of the Company's board of directors' members present at a meeting or participating in an absentee voting. The committee assists the board of directors with development of the Company's remuneration and benefits policies, elaborates remuneration system for the members of the board of directors as well as the Company's General Director, considers and interviews potential new members of the board of directors and a nominee for the General Director's position and makes recommendations to the Company's board of directors with respect to these matters.

Litigation Statement about Directors and Senior Management

Except as described below, at the date of this Prospectus, for at least the previous five years, none of the Company's directors or senior managers:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

In 2002-2003 Mr. Nesis was an executive director and subsequently the general director of OJSC Vostsibugol. During 2002-2006, several applications for bankruptcy were filed in court by third parties. None of these applications led to the initiation of bankruptcy proceedings because the court determined that the petitions were groundless. In 2004 the shareholders of OJSC Vostsibugol approved a decision on voluntary liquidation, however, the court invalidated such decision.

CERTAIN REGULATORY MATTERS

Applicable Laws, Rules and Regulations

The fundamental law governing subsoil use in Russia in general is Law No. 2395-1 "On Subsoil", dated 21 February 1992, as amended (the "Subsoil Law"). The Subsoil Law allocates jurisdiction in the mining sector between federal and regional authorities, sets out the basic principles and features of the licence-based regulatory framework, and outlines the rules governing the issuance, transfer, suspension and termination of licences. The law specifically governing mining of precious metals and distribution in and from Russia is Federal Law No. 41-FZ "On Precious Metals and Precious Stones", dated 26 March 1998, as amended (the "Precious Metals Law"). There is also a number of regulations issued by the Russian federal government through its ministries and agencies that regulate certain aspects of mining of precious metals.

General

State regulation of the precious metals industry, inter alia, includes:

- licensing of exploration, geological study and production of precious metals;
- pre-emptive right of the state to purchase precious metals;
- requirements for accounting, reporting, storage and transportation of precious metals;
- procedures for effecting transactions with precious metals;
- control over the compliance with legislation relating to the precious metals industry;
- procedures for export and import of precious metals;
- customs control;
- certification of precious metals; and
- requirements for the refining of precious metals.

The Precious Metals Law provides for the split of powers for regulation of the precious metals industry between the federal and regional authorities of the Russian Federation.

Regulatory Authorities

At the federal level, regulatory supervision over the Group's business is divided primarily between the government, the Ministry of Finance, the Ministry of Economic Development and Trade, the Ministry of Natural Resources and the Ministry of Industry and Energy of the Russian Federation. The government of the Russian Federation ensures implementation of a common state policy in the area of geological study and exploration of precious metals deposits, extraction, production, use and trade of precious metals; approves plans for creation of the State fund of precious metals and gemstones of the Russian Federation; and determines the licensing procedures for the subsoil use in connection with the exploration and production of precious metals. The Ministry of Finance is responsible for the development of the governmental policy in the precious metals industry. The Ministry of Economic Development and Trade is responsible for encouraging investment, foreign trade and support of scientific research. The Ministry of Natural Resources is responsible for the development of governmental policy and regulation in the sphere of exploration, use, restoration and protection of natural resources and environment. The Ministry of Industry and Energy is responsible for the development of the governmental policy in the area of development of deposits of precious metals on the basis of production sharing agreements.

The federal ministries in Russia are not, however, responsible for compliance control or management of state property and provision of state services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that regulate the Group's business include: the Federal Agency for Subsoil Use, the Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Agency for Technical Regulation and Metrology, the Russian State Assaying Chamber and the FAS.

The Federal Agency for Subsoil Use organises tenders and auctions, issues licences for the use of natural resources and approves design documentation for subsoil use.

The Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of subsoil licences and certain matters of environmental legislation and controls geological exploration, use and protection of subsoil, and also forms special committees to effectuate official ecological examination of project papers.

The Federal Service for Environmental, Technological and Nuclear Supervision oversees compliance with certain mandatory industrial safety rules and environmental legislation, including safety procedures relating to the installation, deployment and operation of technical devices and machinery used in the Group's business and the procedures for maintaining production and technological processes. It also (i) issues licences for certain industrial activities and activities relating to safety and environmental protection, such as licences for exploitation of fire risk mining works and conduct of explosive operations, surveyor's works and use of dangerous wastes; (ii) registers dangerous objects; and (iii) establishes limits for waste disposal.

The Russian State Assaying Chamber at the Ministry of Finance is responsible for assaying supervision and control over production, extraction, processing, use, trade, accounting and storage of precious metals in the territory of the Russian Federation.

The Federal Labour and Employment Service controls and supervises the Group's compliance with labour legislation.

The Federal Agency for Technical Regulation and Metrology determines obligatory industrial standards.

The FAS pursues the state policy of promoting the development of the commodity markets and competition, exercising control over the observance of the antimonopoly legislation and preventing and terminating monopolistic activity, unfair competition and other actions restricting competition. The FAS, among other things, oversees the acquisition of controlling stakes in companies and dominant market position by business enterprises.

In addition to the above federal executive bodies, which are directly involved in the regulation of and supervision over the Group's business, there are a number of other governmental bodies and agencies with authority over general issues connected to the Group's business, including justice, rail transport and tax enforcement.

The competence of the regional authorities in the precious metals industry, include, among other things, acquisition of precious metals for the creation of the state funds of precious metals of the constituent entities of the Russian Federation and control, along with the federal control authorities, over activities of organisations in the precious metals industry in the territory of the constituent entity of the Russian Federation (except for federal assaying supervision).

In addition, regional and local authorities control land-use allocations and exercise certain taxation powers.

Licensing

The Group is required to obtain licences, authorisations and permits from Russian governmental authorities to conduct its operations. The Federal Law on Licensing of Certain Types of Activities dated August 8, 2001, as amended (the "Licensing Law"), as well as other laws and regulations, list activities which can only be performed subject to licences issued by the relevant Russian authorities and establish procedures for issuing such licences. In particular, to conduct its operations, the Group requires licences and permits for, *inter alia*:

- use of subsoil, See "—Subsoil Licensing";
- discharge of pollutants into the environment;
- handling of hazardous waste;
- storage and use of explosive materials;
- operation of explosive and flammable production facilities;
- exploitation of electricity networks; and
- various transportation activities.

As of the date of this Prospectus, the Group held 17 licences necessary to conduct material aspects of its operations. See "General Information—Licences" for a detailed description of the Group's licences.

The licences are usually issued for a minimum period of five years. Licences for the use of natural resources may be issued for shorter or longer periods. Upon expiration, a licence may be extended upon application by the licensee but usually subject to prior compliance with regulations. Certain types of licences may be issued for the expected operational life of the relevant field, and certain licences may have unlimited terms.

A licence may be suspended if the licensee repeatedly makes material breaches of the terms and conditions of such licence. If a licensee fails to mitigate any breach of the licence granted to it within the period established by the licensing authority, that authority may apply to court for the cancellation of the licence. A court may also cancel the licence in certain other cases (for example, if the breach of the terms and conditions of a licence by the licensee damaged the rights, legal interests or health of individuals). Licensing regulations and the terms of its licences and permits require the Group to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

Subsoil Licensing

In Russia, minerals mining requires a subsoil licence issued by the Federal Agency for Subsoil Use with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land plot where such licensed mineral deposit is located. In addition, operating permits are required for specific mining activities.

The primary law regulating subsoil licensing is the Law on Subsoil of 21 February 1992 as amended (the "Subsoil Law"), and the regulations adopted thereunder, which set out the regime for granting licences for the exploration and production of mineral resources and subsoil use regime. Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licences, in particular abolishing the joint grant of licences by federal and regional authorities.

Currently production licences and combined exploration and production licences are awarded by tender or auction conducted by special commissions of the Federal Agency for Subsoil Use. While such auction or tender may involve a representative of the relevant region, the separate consent of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances production licences may also be issued without holding an auction or tender, for instance, to holders of exploration licences that discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue production licences for "common" mineral resources, such as clay, sand or limestone.

There are two major types of licences: (1) exploration licences, which are non-exclusive licences granting the right of geological exploration and assessment within the licence area, and (2) production licences, which grant the licensee an exclusive right to produce minerals from the licence area. In practice, many of the licences are issued as combined (exploration and production) licences, which grant the right to explore, assess and produce minerals from the licence area, which is defined in terms of latitude, longitude and depth.

Payments with respect to the exploration, evaluation and extraction of minerals include: (i) payments for the use of subsoil under the Subsoil Law (which may include regular payments for exploration of minerals and certain one-off payments) and (ii) the mineral extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil licence. The mineral extraction tax is calculated as a percentage of the value of minerals extracted, and currently is set at 6.0% for gold ore and 6.5% for silver ore.

The term of the licence is set forth in the licence. Prior to January 2000, exploration licences had a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licences have a maximum term of five years; production licences are generally granted for a term of the expected operational life of the field based on a feasibility study, except under certain circumstances in which the licence may be issued for a term of one year; and combined licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments do not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law, provided the licensee complies with the licence terms. The term of a subsoil licence runs from the date the licence is registered with the Federal Agency for Subsoil Use.

Issuance of Licences

Most of the currently existing production licences owned by companies derive from (i) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations or (ii) tender or auction procedures held in the post-Soviet period. The Subsoil Law and related regulations contain the major requirements relating to tenders and auctions.

Extension of Licences

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations. In order to change any condition of a subsoil licence, including extension of its term, a company must file an application with the federal authorities to amend the licence.

The Order of the Ministry of Natural Resources No. 439-R, dated 31 October 2002, requires that the following issues be considered by the relevant governmental authorities when determining whether to approve an extension: (i) the grounds for the extension with specific information as to how the extension may impact payments by the licensee to the federal and local budgets; (ii) compliance of the licensee with the conditions of the licence; and (iii) the technical expertise and financial capabilities that would be required to implement the conditions of the extended licence.

The factors that may, in practice, affect a company's ability to obtain an extension of a licence include (i) its compliance with the licence terms and conditions; and (ii) its management's experience and expertise relating to subsoil issues. For a description of additional factors that may affect the Group's ability to extend its licences, see "Risk factors—Risks Relating to the Company's Operations—The Company is dependent on obtaining and maintaining licences necessary for the operation of its business".

Transfer of Licences

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the licence holder or in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence. Licences can also be transferred from a parent company to its subsidiary, from a subsidiary to its parent company and from one subsidiary to another at the instruction of the parent company provided that the transferee is incorporated in Russia and meets certain requirements provided in the Subsoil Law.

Maintenance and Termination of Licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licencee. The licensing agreement sets out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments, including bringing the field into production by a certain date; extracting an agreed-upon volume of natural resources each year; conducting agreed mining and other exploratory and development activities; protecting the environment in the licence areas from damage; providing geological information and data to the relevant authorities; and submitting on a regular basis formal progress reports to regional authorities. The licence agreement may also contain commitments with respect to social and economic development of the region. When the licence expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a licence are based on mandatory provisions contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties.

If the subsoil licensee fails to fulfil the licence conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence due to material changes in circumstances, it may apply to amend the relevant licence conditions, as discussed above, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for limitation, suspension or termination of the rights of a subsoil user. A licensee can be fined or its rights can be limited, suspended or terminated for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area or upon the occurrence of certain emergency situations. The rights of a subsoil user may also be limited, suspended or terminated for violations of material licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project (as opposed to the levels set up in the licensing agreement) would also be likely to constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limitation, suspension or termination of the rights of a subsoil user.

Land Use Rights

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Land use rights are generally obtained for only those parts of the licence area which are actually in use, including the plot being mined, access areas, and areas where other mining-related activity is being carried out.

Under the Land Code of the Russian Federation No. 136-FZ, dated 25 October 2001, as amended (the "Land Code") the companies generally have one of the following rights with regard to land in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties.

Companies having a right of perpetual use of land that was obtained prior to the enactment of the Land Code are required, by 1 January 2008, either to purchase the land from, or to enter into a lease agreement with, the relevant federal, regional or municipal authority owning the land.

The Group generally has a right of ownership or perpetual use of its plots or has entered into long-term lease agreements. A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Rights to Extracted Precious Metals

A licensee's rights to the extracted precious metals are set out in the terms of the relevant licence. Unless otherwise provided by a licence, a supply agreement entered into by a licensee, or an applicable international treaty, the title to the extracted precious metals belongs to the licence holder who has extracted them.

Federal Fund of Reserve Deposits

In order to regulate the volumes of precious metals extracted and to satisfy the future demand of the Russian Federation for precious metals, certain explored deposits of recorded precious metals, which have not been granted for the use or which have been withdrawn from the use, are included in the federal fund of reserve deposits on the basis of a decision of the President of the Russian Federation taken together with the regional authorities. Disposal of the federal fund of reserve deposits is decided by the government of the Russian Federation in accordance with the procedure established by the subsoil legislation. Conditions of use of deposits included in the federal fund of reserve deposits must be agreed with the regional authorities.

Pre-emptive Right of the State to Purchase Precious Metals

The sales of silver and gold and other transactions in precious metals are regulated by the Precious Metals Law and certain government regulations. The state has the pre-emptive right to purchase precious metals from licensees and producers. This right may be exercised at both federal and regional levels. This right is subject to the prior conclusion of a sale and purchase agreement (no later than three months before the purchase date) and advance payment of the purchase price, which is determined according to (i) prices on the world market and (ii) market fluctuations on the purchase date. The state has never exercised its pre-emptive right in relation to the gold and silver produced by the Company.

Pursuant to the Precious Metals Law, any silver and gold offered for sale by producers must first be offered for sale to the State Institution for the Creation of the State Fund of Precious Metals and Gemstones of the Russian Federation, Storage, Sale and Use of Precious Metals and Gemstones at the Ministry of Finance of the Russian Federation ("Gokhran") and also to any authorised regional state body in charge of regional funds of precious metals and gemstones.

If Gokhran and/or other authorised bodies listed above do not exercise their rights to purchase, the licensee or producer of precious metals can sell such precious metals to third parties.

Replenishment of the state fund of precious metals is determined by decision of the government of the Russian Federation and is effected within the limits set by the annual federal budget.

Pricing Requirements

The Precious Metals Law requires that prices for precious metals are determined taking into account the world prices in the precious metals market.

The price for which the refined precious metals are sold to Gokhran is determined on the basis of the London precious metals market prices on the day preceding the day when the price is established, less certain of Gokhran's expenses in connection with the sale of precious metals. The price so determined may not exceed the London precious metals market prices.

Extraction and Refinery

The Precious Metals Law requires that extracted and processed precious metals (except for precious metal nuggets) are forwarded, after the necessary treatment, to refineries approved by the government of the Russian Federation. Currently there are only 10 refineries that have been authorised by the government of the Russian Federation to refine precious metals. The title to the precious metals after refining remains with their initial owners, unless otherwise stipulated by the terms of a refinery agreement.

Export and Import

The import of precious metals into the Russian Federation is effected without any quantitative restrictions or licensing requirements. The procedure for the export of precious metals from the Russian Federation depends on the type of precious metal or ore and may be subject to licensing and export quotas. The quotas for the export of precious metals and raw-material goods are fixed annually by the government of the Russian Federation on an individual basis as proposed by the Ministry of Finance and agreed upon with the Ministry of Economic Development and Trade of the Russian Federation. In exceptional cases, the government of the Russian Federation may fix individual long-term quotas (for a period not exceeding five years) with a breakdown by year. Assigned individual quotas can not be recalculated. Licences for the export of precious metals are issued by the Ministry of Economic Development and Trade of the Russian Federation within one month from the day an application has been registered for a licence in accordance with the procedure established by the government of the Russian Federation.

Accounting and Reporting

Precious metals must be recorded according to their mass and quality when extracted, and also during the production process, use and trading. The procedure for such recording and reporting is established by the government of the Russian Federation.

Security

Any entities engaged in the geological study of, prospecting for, extraction, production, use and turnover of precious metals, and any goods produced from such precious metals, as well as individual entrepreneurs performing transactions with precious metals, are obliged to organise the safekeeping of such precious metals and goods produced from such precious metals. Such entities and individual entrepreneurs are obliged to implement certain security measures at facilities where transactions in precious metals are performed and to equip such facilities with special safety signalling and communication equipment. In addition, such entities and individual entrepreneurs are obliged to set up their own security services or to contract for such services with organisations that specialise in providing such security services.

Transportation vehicles for precious metals and goods produced from precious metals must be equipped with corresponding safety and security measures and must be accompanied by armed guards. The requirements for the equipment of the specialised road transport vehicles (with the exception of special vehicles of the bank's security services and money transport services) are established by a special authorised federal executive body in coordination with Russian internal affairs authorities.

Special Control in Precious Metals Industry

For the purposes of compliance with applicable legislation in the area of precious metals, effective use of precious metals, use of environmentally friendly extraction and production technologies, safety of precious metals and goods produced from precious metals, the federal and regional authorities carry out state control over the precious metals industry. Respective authorities may perform audits and inspections of all organisations engaged in the precious metals industry, establish accounting and reporting requirements, and issue orders for the removal of violations of regulatory requirements.

The principal authority entitled to carry out the above control is the Federal Assaying Chamber at the Ministry of Finance of the Russian Federation (the "Federal Assaying Chamber"). The Federal Assaying Chamber and its structural subdivisions, inter alia, control the compliance of legal entities and individuals with regulatory requirements in connection with the production, extraction, processing, use, trade accounting and storage of precious metals.

Anti-monopoly Regulation

The anti-monopoly legislation of the Russian Federation is based primarily on the Federal Law No. 135-FZ "On Protection of Competition", dated 26 July 2006 ("Competition Law"), and other federal laws and regulations governing anti-monopoly issues.

The anti-monopoly legislation of the Russian Federation governs relations aimed at the protection of competition, including, but not limited to, those intended to prevent and terminate any monopolistic operations and unfair competition, which inter alia involve Russian legal entities, foreign legal entities, state agencies of the Russian Federation and local government authorities.

The compliance with anti-monopoly legislation in Russia is monitored by the FAS. Russian legislation grants the FAS ample powers necessary for the performance of its functions and dealing with violations of anti-monopoly legislation. The FAS is, inter alia, authorised:

- to initiate or examine cases regarding violation of anti-monopoly legislation;
- to issue statutory prescriptions to business entities in cases specified in the Competition Law regarding, for instance, (i) termination of agreements and/or of coordinated acts of business entities limiting competition, and performance of actions aimed at ensuring competition; (ii) termination of the abuse of its dominant position by a business entity, and performance of actions aimed at ensuring competition; (iii) mitigation of effects of the violation of the anti-monopoly legislation; (iv) entry into agreements, amendments of the terms or cancellation of agreements in the event that during the examination by the anti-monopoly agency of cases of violation of the anti-monopoly legislation by persons whose rights have been or may be infringed, a relevant motion has been made or in case of performance by the anti-monopoly legislation of state supervision over the economic concentration; (v) transfer to the federal budget any income received as a result of violation of anti-monopoly legislation;
- to hold commercial and non-commercial organisations and their officers to account for violating anti-monopoly laws in the instances and by the procedure that is established by Russian legislation; and
- to file with a court or an arbitration court applications in respect of violations of anti-monopoly laws, including, inter alia, invalidating in full or in part any agreements that do not correspond to the anti-monopoly legislation.

In general, anti-monopoly restrictions for entities operating in Russia include prohibitions on setting and maintaining high or low monopoly prices for goods; withdrawal of goods from circulation if such withdrawal raises the prices for such goods; curtailment or discontinuance of production of goods that is not economically or technologically justified if such goods enjoy demand or if orders have been placed for their supply and it is possible to continue to produce them at a profit; setting different prices (or tariffs) for the same goods that are not economically, technologically, or otherwise justified; creating discriminatory conditions.

In certain circumstances (i) acquisition of stakes in the companies, (ii) acquisition of fixed or intangible assets of the companies, or (iii) obtaining control over the activity of a company will require a person making an acquisition or obtaining control to obtain prior approval of FAS in respect of the relevant transaction or notify FAS about such transaction. FAS is also authorised to approve mergers or consolidations of companies, and to monitor incorporation of companies. See "Description of Share Capital and Applicable Russian Legislation".

As a condition to issuing approvals for the above transactions, FAS may impose on their recipients certain conditions aimed at protection of competition, including restrictions on conducting business, such as limitations on prices, geographical expansion, entering into associations and agreements with competitors.

Furthermore, the Competition Law establishes a regulatory framework for companies in dominant positions in certain markets, aimed at protection of competition in the relevant markets.

The Competition Law establishes several criteria for determining whether an entity together with its group has a dominant position in a particular commodity market.

1. An entity together with its group is deemed to have a dominant position in a particular commodity market if: (i) such entity together with its group has a market share of a particular commodity market in excess of 50%, unless it is specifically established that such entity together with its group does not have a dominant position; (ii) such entity together with its group has a market share of a particular commodity market in excess of 35% (but less than 50%) and it is specifically established by FAS that such entity has a dominant position based on the following factors: (a) the share of such entity in the relevant market is constant or is subject to insignificant changes as compared to competitors' shares in the same commodity market; (b) the possibility for new competitors to enter the relevant commodity market; (c) other criteria characterising the commodity market.

2. Each entity (of the list of particular entities) is deemed to have a dominant position if: (i) the aggregate market share of not more than three entities or of not more than five entities exceeds 50% or 70% of a particular commodity market, respectively, and each of such entities holds a larger share than the share of any other entity in the same market (this provision does not apply if the market share of at least one of the above entities is less than 8%); (ii) throughout a significant period of time (not less than one year or, if such period is less than one year, during the period of the existence of a particular commodity market), the respective market share of such entities remains constant or is subject to insignificant changes, and also if access to a particular commodity market is rendered difficult for new competitors; and (iii) the commodity that is being sold or bought by such entities cannot be substituted for another commodity (including for industrial use), the price growth for the relevant commodity does not result in a decline in demand corresponding to such price growth, and information about prices, terms for the sale or purchase of such commodity on a particular commodity market is available to an unlimited number of people.

3. Any natural monopoly of a particular commodity is considered to have a dominant position in that particular commodity market.

An entity holding a dominant position in a particular commodity market is prohibited from abusing such a position through, inter alia, the following activities: (i) fixing and/or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation, which results in price increases; (iii) dictating to a counterparty terms unfavourable to it or not relevant to the subject-matter of the agreement; (iv) reducing or terminating the production of certain goods for other than economic or technological reasons, if there is a demand for such goods or orders are placed for the supply of such goods, provided the goods can be produced at a profit, and also if such reduction or termination is not explicitly provided for by corresponding legal or judicial acts; (v) refusing to enter into an agreement with certain buyers (customers) or avoiding such agreement, provided there are possibilities for the production or supply of the relevant goods, and also if such refusal or avoidance is not explicitly provided for by corresponding legal or judicial acts; (vi) fixing various prices (tariffs) for the same goods for other than economic or technological reasons or otherwise, unless provided for by federal laws; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; (ix) violation of established pricing rules; and (x) any other activities that result or may result in preventing, limiting or eliminating competition and/or infringing upon other participants in such market by any entity holding a dominant position in a particular commodity market.

FAS is authorised to issue binding orders on companies violating the applicable anti-monopoly regimes (including orders requiring a spin-off or split of business).

The Group does not currently have a dominant position in the market in which it operates and is not otherwise subject to any anti-monopoly restrictions imposed by FAS. However, the Group may in the future become subject to general anti-monopoly requirements (as outlined above) in connection with the potential acquisitions of stakes in other companies involved in the precious metals industry.

Environmental Matters

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law No. 7-FZ "On Environmental Protection", dated 10 January 2002, as amended (the "Environmental Protection Law"), as well as by a number of other federal and local laws.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and resource extraction, while the Federal Service for Environmental, Technological and Nuclear Supervision has set limits for the emission and disposal of substances as well as for waste disposal. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition of such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in Decree of the Russian Government No. 344 "On Rates of Payments for Pollutant Emissions Into the Air by Stationary and Mobile Sources, Pollutant Disposals Into Surface and Underground Waters, Disposal of Production and Consumption Waste" of June 12, 2003, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. In the first nine months of 2006 and in 2005, 2004 and 2003, the Group made payments of $227,000, $202,000, $243,000 and $62,000, respectively, for its emissions. The Group made payments for waste disposal of $187,000, $167,000, $213,000 and $105,000 in the first nine months of 2006 and in 2005, 2004 and 2003, respectively.

Ecological Approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law No. 174-FZ "On Ecological Expert Review", dated 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described under "—Environmental Liability".

Enforcement Authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental Compliance

In August 2006, Polymetal completed an environmental compliance strategy audit. The results of the audit concluded that the Company was in compliance with World Bank Guidelines for sound environmental management. SRK, appointed as independent technical expert in connection with this audit, concluded that all environmental permitting and licensing was in place at each operation; there were no abnormal environmental impacts at any of the Company's operations and no material issues; there appeared to be good support for each operation within the local communities and no adverse issues relating to community relations were expected; and the Company's environmental and health & safety management was considered to be amongst the best that the reviewers had encountered in Russia. The review also identified areas where the management of environmental and health & safety issues could be improved, including operational environmental management; environmental monitoring; closure and rehabilitation; health & safety management; and emergency response procedures.

Polymetal has prepared an Environmental Impact Assessment Study for each of its operations during the last 2-3 years, in accordance with Russian regulations and norms. These documents have been subject to a formal independent review and all have been approved by the relevant government agencies. The Dukat, Khakanja, Lunnoye and Omsukchan approvals have been received from the Magadan office of the Ministry of Natural Resources, which has delegated powers, whilst the approval for Voro has come directly from the Ministry in Moscow because there are no delegated powers in Sverdlovsk.

The Company has prepared an individual environmental monitoring plan for each of its operations, which are also approved by the relevant authorities. These plans are based on the section in the respective Environmental Impact Assessment Study that deals with expected emissions and discharges to air and water and the extent of waste disposal on land. The monitoring plans provide the record of actual emissions, discharges and waste disposal, which, in conjunction with Russian standards and norms, form the basis for pollution payments that are made to the Regional Directorates of the Ministry of Natural Resources. See "—Pay-to-pollute", above.

Environmental Liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to fines. Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low, but this may lead to a suspension of mining works.

Reclamation

The Group conducts its reclamation activities in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995, of the Ministry of Natural Resources. Russian environmental regulations do not require mines to achieve the AOC of the property as is required, for example, in the United States. The Group has not prepared closure and post-closure plans for its mining and production plants in accordance with any acceptable international standards. The Group believes it has complied in all material respects with the environmental standard of the appropriate regulatory authorities in the Russian Federation. The Group has not been specifically requested by such regulatory authorities to develop a closure plan nor to establish a liquidation fund.

The Company makes provision in its financial statements for closure costs, the rehabilitation obligations of its mining operations and reclamation.

Health and Safety

Due to the nature of the Group's business, much of its activity is conducted at the licence areas by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating industrial safety is Federal Law No. 116-FZ "On Industrial Safety of Hazardous Industrial Facilities", dated 21 July 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and non-ferrous metals are produced and where certain types of mining are carried out. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. The Group in the conduct of its operations is also obliged to comply with the safety rules that are adopted by the Federal Service for Environmental, Technological and Nuclear Supervision for the particular activity.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites are subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code. In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional demolition companies or create their own demolition services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration and a state industrial safety review are required for the issuance of a licence permitting the operation of a hazardous industrial facility.

In addition, companies with more than 50 employees must have a special work safety service or a work safety officer. Business entities are required to spend 0.2% of their production expenses on improvement of work safety. Any company or individual violating industrial safety rules may incur administrative and/or civil liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all the costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be liable to compensate the individual for lost earnings, as well as health-related damages, and in certain cases its activity may be suspended.

The Federal Law on Technical Regulation of December 27, 2002, as amended (the "Technical Regulation Law"), introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation. The Technical Regulation Law supersedes the Laws of the Russian Federation on Certification of Goods and Services of June 10, 1993 and on Standardisation of June 10, 1993 and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. The Technical Regulation Law provides for a seven year (2003-2010) transition period, during which Russia will carry out such revision of existing legislation and technical rules. During the development of this new system, Russia's existing certification system will generally remain in effect. Currently, the Federal Service for Environmental, Technological and Nuclear Supervision is responsible for developing and enacting new technical rules relating to the industrial safety of mining and production operations that relate to the Group's operations.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts (for example, this applies to the contracts with top managers).

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence or health problems;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties;
- provision by the employee of false documents or misleading information prior to entry into the employment contract; and
- other grounds provided in the Labour Code or other federal laws.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother.

Any termination by an employer of an employment contract that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for claimed moral damage (which amount should be approved by the court).

Work time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from 6 to 36 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least 7.5 years, is 50 years and 45 years respectively, and for men who have worked in underground mines for at least 12.5 years and women who have worked in underground mines for at least 10 years is 55 and 50 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years may also retire, regardless of age.

Salary

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUB 1,100 from 1 May 2006 (approximately U.S.$40). Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia.

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended, or the ("Trade Union Law").

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

Although the Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability, no specific sanctions for these violations are set forth in Russian legislation.

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LEGISLATION

This section is a summary of the Company's share capital, the material provisions of the Company's charter in effect as of the date of this Prospectus and certain requirements of Russian legislation applicable to the Ordinary Shares and their holding and disposal. GDR holders will be able to exercise their rights with respect to the Ordinary Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements and the relevant requirements of Russian law. See "Terms and Conditions of the Global Depositary Receipts" for more information.

The Company's Purpose

Article 2 of the Company's charter provides that its purpose is to receive profit. The Company is entitled to carry out various activities permissible under Russian law, such as exploration and production of gold and silver, engineering and construction works and other activities provided for by its charter and applicable Russian legislation. The Company may engage in certain types of activities, a list of which is prescribed by law, only on the basis of a licence.

Description of Share Capital and Certain Rights of Shareholders

General Matters

Upon the Company's incorporation, its share capital was RUB 85,000. Before the Offering, the Company's share capital consists of 275,000,000 issued, fully paid and outstanding Ordinary Shares, each with a nominal value of RUB 0.2.

The following table sets forth the changes in the Company's share capital from its formation until the Offering:

Registration Date	Type of issuance	Total number of shares	Total share capital	Nominal value
			(in roubles)	(in roubles)
27 March 1998	Distribution among founders	850	85,000	100
3 July 1998	Closed subscription	350,000	35,000,000	100
16 August 2000	Closed subscription	450,000	45,000,000	100
29 August 2002	Closed subscription	500,000	50,000,000	100
26 November 2003	Closed subscription	550,000	55,000,000	100
5 December 2006	Conversion at split	275,000,000	55,000,000	0.2

Under Russian legislation, share capital refers to the aggregate nominal value of the issued and outstanding shares. Pursuant to the Company's charter and the Joint Stock Companies Law, the Company may issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities.

Pursuant to the Company's charter, the Company is authorised to issue up to 2,400,000,000 ordinary shares, each with a nominal value of RUB 0.2, including the New Shares that are to be issued in the Offering. When issued, the New Shares will be identical to, and fully fungible with, the Company's currently issued and outstanding Ordinary Shares.

The Joint Stock Companies Law in certain cases allows or, as the case may be, requires the Company to repurchase its shares. See "—Share Capital Decrease, Share Repurchases". Shares purchased by the Company are referred hereto as treasury shares. Russian law does not permit voting for and dividend payment on the treasury shares. The treasury shares must be resold at not less than market price, but, in any case, not less than the nominal value of shares, within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the Company's share capital.

The Company's ordinary shares are listed on the RTS under the symbol "PMTL".

Rights Attaching to Ordinary Shares

Holders of the Company's ordinary shares have the right to vote at all shareholders' meetings. As required by the Joint Stock Companies Law and the Company's charter, all of the Company's ordinary shares have the same nominal value and grant identical rights to their holders. Each fully paid ordinary share, except for treasury shares, entitles its holder to:

- participate in the Company's management as provided for by the Joint Stock Companies Law and the Company's charter;
- participate in shareholders' meetings and vote on all matters within shareholders' competence;
- receive dividends on a pro rata basis;
- upon liquidation, receive a proportionate amount of the Company's property after its obligations to the creditors (including Russian tax authorities) have been settled;
- if holding, alone or with other shareholders, 2% or more of the voting shares, within 30 days after the end of the Company's financial year, submit proposals for the annual shareholders' meeting and nominate candidates to the board of directors and the revision commission;
- if holding, alone or with other shareholders, 10% or more of the voting shares, demand that the board of directors convene an extraordinary shareholders' meeting or an unscheduled audit by the revision commission or by the external auditor;
- have access to certain of the Company's documents, receive copies for a reasonable fee, and if holding alone or with other shareholders, 25% or more of the voting shares, have free access to accounting documents;
- freely transfer the shares without the consent of the Company's other shareholders;
- acquire the Company's shares by exercising pre-emptive rights on a pro rata basis in relation to its existing holding of the Company's shares as provided for by the Joint Stock Companies Law and the Company's charter;
- demand repurchase by the Company of all or some of the shares held by the shareholder, as long as such shareholder voted against or did not participate in the voting on a decision approving the following:
  - the Company's reorganisation;
  - conclusion of a major transaction, the value of which exceeds 50% of the book value of the Company's assets; or
  - amendment of the Company's charter that restricts shareholders' rights;
- transfer voting rights to a representative on the basis of a power of attorney; and
- exercise other rights of a shareholder as provided by the Company's charter and Russian legislation.

Pre-emptive Rights

The Joint Stock Companies Law and the Company's charter provide shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law and the Company's charter provide shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on a decision approving such subscription. The pre-emptive right does not apply to a closed subscription for shares by existing shareholders, provided that such shareholders may each acquire a whole number of the shares or securities convertible into shares being placed, in proportion to their existing shareholdings. The Company must notify shareholders of the opportunity to exercise their pre-emptive right and the period within which such pre-emptive right may be exercised, which, as a general rule, may not be shorter than 45 days from the date when notification is sent to the shareholders, and in the case where share issuance documents expressly specify that the placement price in respect of shares being placed is to be determined following the expiration of the pre-emptive rights period, this period may be shortened to 20 days.

Share Acquisition Above Certain Thresholds and Anti-takeover Protection

A person intending to acquire more than 30% of the voting shares (taking into account those it already holds together with its affiliates) has the right to make a public offer to other shareholders of the company (a voluntary offer). Within 35 days after acquiring by any means more than 30%, 50% or 75% of such shares, the acquirer must make a public offer to purchase the remaining shares from the shareholders (a mandatory offer).

The acquirer's payment obligations arising from both voluntary and mandatory offers shall be secured in each case by an irrevocable bank guarantee effective within at least six months after the expiration date of the relevant acceptance period.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing offer (that satisfies the requirements for voluntary or mandatory offers, respectively) to purchase the number of shares and at a price greater than or equal to that offered in the respective voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period.

In addition, once a voluntary or mandatory offer has been made and until expiration of a 20 day period after the expiration of the period for acceptance of a voluntary or mandatory offer, the company's shareholders' meeting will have the sole power to make decisions on share capital increase through additional share issuance, approval of interested party transactions and certain other transactions and on certain other significant matters.

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares, it will have an obligation to:

- notify all the other shareholders (within 35 days after the acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares; and
- purchase their shares upon request of each minority shareholder.

In addition, instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, binding on the minority shareholders, that they sell their shares. An offer of the kind described in the preceding paragraph must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including price) in order to comply with the rules.

As a general rule, such new buy-out mechanisms became effective as of July 1, 2006 and will be available to persons that acquired such shares pursuant to a voluntary or a mandatory offer after such date. In addition, for one year after August 12, 2006, such mechanisms are available to the majority shareholders that own, as of July 1, 2006 more than 95% of the voting shares or, alternatively, 85% of such shares but will acquire more than 95% of the same through a voluntary offer made after such date. However, in each such case, the determination of the purchase price will require both a report of an independent appraiser and an expert opinion of a self-regulatory organisation of appraisers.

Dividends

The Company may decide to pay interim dividends (based on the quarterly, semi-annual or nine months results) and/or annual dividends (based on annual results). The board of directors recommends the amount of the interim and annual dividends to be paid to the Company's shareholders, who approve such interim or annual dividends by a majority vote at the extraordinary or annual shareholders' meeting, respectively, unless otherwise provided by the Joint Stock Companies Law. A decision on quarterly, semi-annual and nine months dividends may be taken within three months after the end of the respective period at the shareholders' meeting; and a decision on annual dividends must be taken at the annual general shareholders' meeting. The amount of the dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to shareholders entitled to participate in the shareholders' meeting which approved the dividends. See "—General Shareholders' Meeting—Notice and Participation". Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions are met:

- the share capital has been paid in full;

- the value of the Company's net assets, calculated under Russian accounting standards, on the date of adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the Company's share capital, the Company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the Company;
- the Company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- the Company is not insolvent on the date of adoption of the decision to pay dividends (and would not become insolvent as a result of the proposed dividend payment); and
- the Company has complied with other requirements of Russian legislation.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under Russian accounting standards, on the date of payment, is less (or would become less as a result of the proposed dividend payments) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- such payment is otherwise prohibited by Russian legislation.

Distribution to Shareholders upon Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and the Company's charter stipulate that the Company may be liquidated:

- by a three-quarters majority vote of the Company's shareholders' meeting; or
- by a court order.

Following a decision to liquidate the Company, the right to manage its affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by the shareholders' meeting and, in the case of compulsory liquidation, is appointed by the court. The Company's creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation (the "Civil Code") sets forth the following order of priority between the creditors during liquidation:

- First priority—individuals owed compensation for injuries or deaths or moral damages;
- Second priority—employees entitled to salary and severance payments, as well as remuneration under copyright agreements;
- Third priority—federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- Fourth priority—other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the Company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors arose before the respective pledges were entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank pari passu with claims of the fourth-priority creditors.

The remaining assets of the company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- distribution of the remaining assets of the company among the holders of ordinary and preferred shares on a pro rata basis.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of such company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). If the effective subsidiary is a joint stock company, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction; and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for in the charter of the effective subsidiary or in a contract with the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent bears joint and several responsibility if the effective parent caused the effective subsidiary to conclude the transaction (regardless of how the effective parent's ability to determine decisions of the effective subsidiary arises).

Accordingly, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. The Company's shareholders will not be personally liable for its debts or those of its effective subsidiaries, unless such shareholders control the business of the Company and/or its effective subsidiaries, and the conditions set forth above are met.

In addition, an effective parent may be held secondarily liable for the debts of an effective subsidiary if the latter becomes insolvent or bankrupt resulting from the action or inaction of the former. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, then the effective parent will have secondary liability only if the effective parent caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent will be held secondarily liable if the effective subsidiary's insolvency is caused by the wilful misconduct or negligence of such effective parent.

Shareholders of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary's loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its wilful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

Share Capital Increase

The Company may increase its share capital by issuing new shares, or increasing the nominal value of previously issued and outstanding shares.

According to the Joint Stock Companies Law and the Company's charter, a decision on increasing the nominal value of issued shares requires a simple majority vote of a shareholders' meeting.

A decision to issue shares or securities convertible into shares by closed subscription, or to issue ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of issued ordinary shares by open subscription, requires a three-quarters vote of a shareholders' meeting. Otherwise, as provided in the charter, a decision to increase the share capital by issuance of additional shares requires a unanimous decision of the board of directors. In addition, the issuance of shares above the number of authorised and non-issued shares provided in the Company's charter necessitates a charter amendment, which requires a three-quarters majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires that the placement price of the newly issued shares be determined by the board of directors based on the market value but not less than their nominal value. The placement price for existing shareholders exercising a pre-emptive right to purchase shares may be less than the price paid by third parties, but in any event no more than 10% below the price paid by third parties. Fees of an intermediary participating in the placement of shares cannot exceed 10% of the share price. The Board of Directors may, but is not required to, appoint an independent appraiser to set the placement price of the shares. There is a specific requirement that in determining the placement price of securities, for which prices are regularly published, the Board of Directors shall take into account such prices. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Federal Law No. 39-FZ "On the Securities Market", dated 22 April 1996, as amended (the "Securities Market Law") and the FSFM regulations set out detailed procedures for the registration and issuance of shares of a joint stock company, including:

- adoption of a resolution on increase of share capital by placement of additional shares;
- adoption of a resolution on share issuance;
- registration of the share issuance with the FSFM;
- placement of the shares;
- registration of the Placement Report or, as the case may be, filing the placement notification with the FSFM; and
- public disclosure of information at the required stages of the issuance.

Share Capital Decrease, Share Repurchases

The Company has the right to, and under certain circumstances, is required to, decrease its share capital. The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is RUB 100,000 for an open joint stock company. The Joint Stock Companies Law requires that any decisions to reduce the Company's share capital, through the reduction of the nominal value of the shares or through the repurchase and cancellation of its shares, are to be made by a general shareholders' meeting. The shares repurchased pursuant to a resolution of the shareholders' meeting to decrease the overall number of shares, are cancelled on their redemption.

Additionally, within 30 days of a decision to reduce the Company's share capital, the Company must notify its creditors in writing and publish this notification. The Company's creditors would then have a right to demand, within 30 days of publication or receipt of such notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law and the Company's charter allow the Company's shareholders to authorise the repurchase by the Company of up to 10% of its outstanding shares in exchange for cash. The shares repurchased pursuant to a shareholders' resolution must be resold at not less than market price but, in any case, at no less than the nominal value of shares within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the Company's share capital.

The Joint Stock Companies Law allows a company to decrease its share capital if the following conditions have been met:

- the share capital of the company is fully paid;
- the value of the company's net assets on the date of adoption of the resolution to decrease the share capital is not less, and would not become less as a result of the proposed decrease of share capital, than the sum of its share capital, the reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares, if any;
- the company is not insolvent on the date of adoption of the resolution to decrease the share capital, and would not become insolvent, as a result of the proposed decrease of share capital;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares;
- the company has paid all declared and unpaid dividends (for decrease of nominal value of shares); and
- other requirements of Russian legislation.

The Joint Stock Companies Law allows the Company to repurchase its shares only if, at the time of repurchase:

- the Company's share capital is paid in full;
- the Company is not and would not become, as a result of the repurchase, insolvent;

- the value of the Company's net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of its share capital, the reserve fund and the difference between the liquidation value and the par value of its issued and outstanding preferred shares; and
- the Company has repurchased all shares from shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation provides that the Company's shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding the repurchase voted against or did not participate in the voting on a resolution approving any of the following:

- the Company's reorganisation;
- conclusion of a major transaction, which value exceeds 50% of the book value of the Company's assets; or
- amendment of the Company's charter or approval of a new edition of the charter in a manner that restricts the shareholder's rights.

The Company may spend up to 10% of its net assets calculated in accordance with Russian accounting standards for a share repurchase demanded by the shareholders. If the value of the shares in respect of which shareholders have exercised their rights to demand repurchase exceeds 10% of the Company's net assets, it will repurchase shares from each such shareholder on a pro rata basis.

Registration and Transfer of Shares

All of the Company's shares are ordinary shares in registered form. Russian legislation requires that a joint stock company must procure the maintenance of a register of its shareholders. Moreover, the shareholders' register of a joint stock company having more than 50 shareholders must be maintained by a licensed registrar. Ownership of the Company's shares is evidenced solely by entries made in the shareholders' register or in accounts with a Russian licensed depositary. Any of the Company's shareholders may obtain an extract from the register certifying the number of shares that such shareholder owns. The Company's shareholders' register is maintained by an independent licensed registrar, OJSC Registrar R.O.S.T. located at Moscow, Stromynka Street, 18, Block 13.

The purchase, sale or other transfer of shares is accomplished through registration of the transfer in the shareholders' register, or registration of the transfer with a licensed Russian depositary if shares are held by such depositary in the capacity of a nominee holder.

As a general rule under Russian law, an acquirer of shares is responsible for a registrar or a depositary being notified in a timely manner regarding the share transfer. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to record the transfers of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, may be challenged in court.

Reserve Fund

Under Russian law, each joint stock company is required to establish a reserve fund to be used solely for purposes of covering the company's losses, redemption of bonds and repurchase of the company's shares in cases when other funds are not available. The Company's charter provides for a reserve fund of 5% of its share capital, funded through mandatory annual transfers of at least 5% of net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Russian securities regulations require the Company to make the following public disclosures and filings on a periodical basis:

- file quarterly reports with the FSFM containing information about the Company, it shareholders, management bodies, members of the board of directors, branches and representative offices, the Company's shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about the Company's financial and business activity;

- file with the FSFM and publish in the FSFM's periodical print publication, as well as in other public media, any information concerning material facts and changes in the Company's financial and business activity, including among other things:
  - the Company's reorganisation;
  - certain changes in the value of the Company's assets;
  - decisions on share issuances;
  - inclusion in the Company's shareholders' register of a shareholder that has acquired 5% or more of the Company's issued ordinary shares and any circumstance which resulted in a change in the quantity of the Company's issued ordinary shares held by such shareholder above or below the 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold;
- disclose information on any of the following documents received by the Company:
  - a voluntary offer (including any competing offer);
  - a mandatory offer (including any competing offer);
  - a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of the ordinary shares;
  - a request that minority shareholders sell their shares to the person that has acquired more than 95% of the ordinary shares;
- disclose information on various stages of share issuance, registration and placement through publication of certain data, as required by the securities regulations;
- publish the Company's annual report and annual financial statements prepared in accordance with Russian accounting standards;
- file with the FSFM on a quarterly basis a list of the Company's affiliated persons and disclose the same on the Company's website, contemporaneously; and
- disclose other information, as required by applicable Russian securities legislation.

General Shareholders' Meeting

Competence and Procedure

The general shareholders' meeting is the Company's highest management body. The general shareholders' meeting must be convened at least once a year. The scope of authority of a general shareholders' meeting is limited to the issues specified by the Joint Stock Companies Law and the Company's charter. Among the issues that the shareholders have the power to decide are:

- amendments to the Company's charter;
- the Company's reorganisation or liquidation, appointment of liquidation commission and approval of interim and final liquidation balance sheets;
- determination of the number of members of the board of directors, election and dismissal of members of the board of directors;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- changes in the Company's share capital (other than those specifically delegated to the competence of the board of directors);
- appointment and dismissal of members of the revision commission;
- approval of the Company's external auditor;
- adoption of annual reports and financial statements;
- distribution of profits, including approval of dividends;
- split and consolidation of the Company's shares;
- approval of certain interested party transactions and major transactions;

- repurchase by the Company of issued shares in cases stipulated by the Joint Stock Companies Law and the Company's charter;
- approval of the Company's participation in financial and industrial groups, associations and other unions of commercial organisations;
- approval of certain internal documents and corporate records; and
- other issues, as provided for by the Joint Stock Companies Law and the Company's charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per ordinary share, except for the election of the board of directors, which is effected through cumulative voting. Resolutions are generally passed by a simple majority vote of the voting shareholders present at a shareholders' meeting. However, Russian law and the Company's charter require a three-quarters majority vote of the voting shareholders present at a shareholders' meeting to approve the following:

- amendments to the Company's charter;
- the Company's reorganisation or liquidation, appointment of liquidation commission and approval of interim and final liquidation balance sheets;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- any issuance of shares or securities convertible into shares by closed subscription;
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting more than 25% of the number of issued and outstanding ordinary shares;
- decrease of share capital by means of change in the nominal value of shares;
- repurchase by the Company of issued shares in cases stipulated by the Joint Stock Companies Law and the Company's charter; and
- major transaction involving assets in access of 50% of the book value of the Company's assets.

The quorum requirement for the Company's shareholders' meeting is satisfied if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in case of an annual shareholders' meeting, must) be convened and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between 1 March and 30 June of each year, and the agenda must include the following issues:

- election of members of the board of directors;
- appointment of members of the revision commission;
- approval of the annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of an external auditor; and
- approval of distribution of profits, including approval of annual dividends, if any.

The shareholders' meeting also approves compensation for the members of the board of directors.

A shareholder or a group of shareholders owning in aggregate at least 2% of the voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors and the revision commission. Any agenda proposals or nominations must be provided to the Company no later than 30 calendar days after the end of the preceding financial year.

Under the Joint Stock Companies Law certain shareholders' resolutions may provide that they remain valid for a specific period of time with respect to a company's reorganisation or spin-off, an increase or decrease of share capital or a splitting or consolidation of shares (the "Validity Period"). However, in the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective

Validity Period for such resolutions has expired, such resolutions become null and void, and subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

Extraordinary shareholders' meetings may be convened by the board of directors at its own initiative, or at the request of the revision commission, the external auditor or a shareholder or a group of shareholders owning in the aggregate at least 10% of the voting shares as of the date of the request.

A general shareholders' meeting may be held in the form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general shareholders' meeting through attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the Company without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of members of the board of directors;
- appointment of members of the revision commission;
- approval of the annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of an external auditor; and
- approval of distribution of profits, including approval of annual dividends, if any.

Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 30 days prior to the date of the annual general shareholders' meeting and general shareholders' meeting to decide on the Company's reorganisation and no less than 20 days prior to the date of an extraordinary general shareholders' meeting (except for instances specified below), and such notification must specify the agenda of the meeting. However, in case of an extraordinary shareholders' meeting to (i) elect the board of directors or (ii) decide on the reorganisation of the Company by way of merger, spin-off or split-off and election of members of the board of directors of the reorganised company, shareholders must be notified at least 70 days prior to the date of the meeting. Only the items set out in the agenda may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is compiled on the basis of data in the Company's shareholders' register as of the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting, nor more than 50 days before the date of the meeting (or, in case of an extraordinary shareholders' meeting to elect the board of directors, not more than 65 days before the date of the meeting).

Generally, the right to participate in a general shareholders' meeting may be exercised by shareholders as follows:

- by personal attendance;
- by attendance of a duly authorised representative (by proxy);
- by absentee ballot; or
- by delegating the right of absentee ballot to a duly authorised representative.

Board of Directors

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for joint stock companies with more than 1,000 holders of voting shares, and at least a nine-member board of directors for joint stock companies with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to be members of the board of directors. Members of the board of directors are not required to be shareholders of the company. The actual number of members of the board of directors is determined by the Company's charter or a resolution of a shareholders' meeting.

The board of directors elects the chairman of the board of directors from its members and has the right to remove its chairman at any time. However, the general director of the company may not be elected as the chairman of the board of directors. The chairman of the company's board of directors organises its work, calls and presides over meetings of the board of directors and performs other functions provided by Russian law, the Company's charter and Company's internal documents.

The Company's charter provides for a seven-member board of directors.

According to the Joint Stock Companies Law, the Company's entire board of directors must be elected at each annual general shareholders' meeting through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by a total number of directors to be elected, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the board of directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

Pursuant to the Joint Stock Companies Law and the Company's charter, the board of directors directs the Company's general management, except for adoption of such decisions that fall within the exclusive competence of the general shareholders' meeting. In particular, the board of directors of the Company has the powers to decide, among others, the following issues:

- determination of the Company's business priorities;
- convening of annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of a shareholders' meeting, determination of the record date for shareholders entitled to participate in a shareholders' meeting and other issues in connection with preparation for, and holding of, general meetings of shareholders;
- adoption of resolution on placement by way of open subscription of ordinary shares and securities convertible into ordinary shares, constituting 25% or less of previously issued and outstanding ordinary shares;
- adoption of resolution on issuance of shares among all shareholders by way of conversion of the Company's assets to share capital;
- placement of the Company's bonds and other securities, as provided in the Joint Stock Companies Law and the Company's charter;
- determination of the price of the Company's property and of the Company's securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of the Company's shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- election and dismissal of the General Director;
- recommendation on the amount of remuneration to be paid to members of the revision commission;
- determination of the amount of the fees payable for the services of an external auditor;
- recommendation on the amount of a dividend and the payment procedure thereof;
- the use of the Company's reserve fund and other funds;
- creation of branches and representative offices;
- approval of the Company's internal documents, except for those documents whose approval falls within the competence of shareholders or the executive body of the Company;
- approval of major and interested party transactions in cases provided for by the Joint Stock Companies Law;
- approval of the Company's participation (termination of participation) in other companies, except for participation in financial and industrial groups, associations and other unions of commercial organisations;
- approval of certain other transactions as provided for by the Company's charter;

- appointment of the Company's shareholder registrar;
- approval of an auditor for the audit of consolidated financial statements of the Company prepared in accordance with US GAAP and approval of agreement with such auditor;
- approval of transactions involving the acquisition, disposal or other transfers of rights to shares or participatory interests in the charter capital of legal entities, except for transactions among legal entities consolidated with the Company in accordance with the consolidated financial statements of the Company prepared in accordance with US GAAP; and
- other issues, as provided for by the Joint Stock Companies Law and the Company's charter.

Meetings of the board of directors are called by its chairman on his or her own initiative, or at the request of a member of the board of directors or a member of the revision commission, external auditor or general director of the Company

A meeting of the Company's board of directors has a quorum if not fewer than four out of seven members are present. Generally, a majority vote of the directors present at the meeting is required to adopt a resolution. Certain decisions, such as increases of the share capital and approvals of major transactions, require a unanimous vote of all members of the board of directors or a majority vote of the disinterested and independent directors, as provided for by the Joint Stock Companies Law and the Company's charter. According to the Company's charter, in case of a tie vote the chairman of the board of directors has a casting vote.

General Director

Pursuant to the Company's charter, the Company's day-to-day activities, except for the matters falling within the competence of the Company's general shareholders' meeting or the board of directors, are managed by the sole executive body, the General Director.

The General Director is responsible for implementing decisions of the Company's general shareholders' meeting and the Company's board of directors. The General Director has the powers to, among other things, act on the Company's behalf without a power of attorney, including representing the Company's interests, entering into transactions, disposing of assets, opening bank accounts, approving staffing structure and issuing internal orders and directives.

The General Director is elected by the Company's board of directors. The Board of Directors may at any time resolve to terminate his or her powers. The General Director may not serve as the chairman of the board of directors. Upon a decision taken at the Company's General Shareholders' Meeting, the functions of the General Director may be transferred to a management company.

The Company's present General Director is Mr. Vitaly N. Nesis, who was appointed on September 1, 2003 for a term of five years. The General Director serves in his capacity pursuant to a written employment agreement.

Revision Commission

The Company's revision commission, whose activities are governed by the Charter and the Company's internal regulations, oversees and coordinates audits of its financial and economic activity. The principal duties of the revision commission are ensuring that:

- the Company's operations comply with applicable laws and do not infringe shareholders' rights; and
- the Company's accounting and reporting do not contain any material misstatements.

The members of the revision commission must be elected at each annual general shareholders' meeting. Members of the Company's board of directors and the general director may not serve on the revision commission.

Corporate Governance

The Company's shares were listed on the RTS on 15 January 2007. As a result, the Company is required to comply with a number of corporate governance requirements, including, among other things, the following:

- at least one independent director on the board of directors at all times;

- adoption of an internal regulation on the use of insider information; and
- a provision in the Company's internal regulations obligating the Company's General Director and members of the board of directors to disclose information on their ownership, sale and purchase of the Company's securities issued.

The Company has complied with the above requirements and has implemented additional corporate governance practices, including establishment of the audit committee and the remuneration committee of the board of directors, each chaired by an independent director.

Interested Party Transactions

Under the Joint Stock Companies Law certain transactions defined as "interested party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of a company. Under Russian law, an "interested party" includes: (i) a member of the board of directors of the company, (ii) a person performing functions of the sole executive body (including a managing company or a manager who performs functions of the sole executive body of the company under a contract), (iii) a member of the collective executive body of the company, (iv) a shareholder, who owns, together with any of its affiliates, at least 20% of the company's voting shares, (v) any person able to issue mandatory instructions to the company, or (vi) any of such persons' spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates who

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- holds offices in any management body of a company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- falls under other cases provided for by the company's charter.

The Joint Stock Companies Law requires that an "interested party transaction" by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors who are not interested in the transaction. An "independent director" is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company except for being its director, or a member of any management body of the company's management organisation or a person whose spouse, parents, children, adoptive parents or children, brothers or sisters have held positions on management bodies of a company or the managing organisation or have been the manager of such company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

An interested party transaction must be approved by a decision of a majority of disinterested shareholders holding voting shares if:

- the value of such transaction, or series of interrelated transactions, is 2% or more of the book value of the company's assets as of the last reporting date, determined in accordance with RAR;
- the transaction, or series of interrelated transactions, involves a placement by subscription or disposal of ordinary shares in an amount exceeding 2% of the company's issued ordinary shares and ordinary shares in which issued convertible securities may be converted;
- the transaction, or series of interrelated transactions, involves a placement by subscription of issued securities convertible into shares that may be converted into ordinary shares constituting more than 2% of the company's issued ordinary shares and ordinary shares in which issued convertible securities may be converted;
- all the members of the board of directors of a company with more than 1,000 shareholders holding voting shares are interested parties, and/or if none of them is an independent director; or
- the number of disinterested directors of a company with 1,000 or fewer shareholders holding voting shares is not sufficient to constitute a quorum.

Approval of an interested party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual shareholders' meeting.

Interested party transactions do not need to be approved in the following instances:

- the company has only one shareholder that simultaneously performs the function of the executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares or securities convertible into shares;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with or into another company; or
- the company is required by law to enter into the transactions and settlement thereunder is made based on fixed tariffs established by the respective state authority.

An interested party transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal of property having the value of 25% or more of the book value of the assets of the company as determined in accordance with RAR, with the exception of transactions conducted in the ordinary course of business or transactions involving a placement of ordinary shares through a subscription (sale) of ordinary shares or with the placement of securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the book value of the company's assets, as determined according to its financial statements for the most recent reporting date, require unanimous approval by all members of the board of directors or, failing such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarters' majority vote of shareholders present at a shareholders' meeting.

Any major transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders.

Approval of the Russian Anti-monopoly Authorities

The Competition Law provides for a mandatory pre-approval by the anti-monopoly authorities of the following actions:

(i) an acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company (⅓ participation interest in a limited liability company) and the subsequent increase of these shares up to more than 50% and more than 75% of the voting shares (½ and ⅔ participation interest in a limited liability company); or acquisition by a person (or its group) of the core production assets and/or intangible assets of an entity if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity; or obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group), if the aggregate asset value of an acquirer (or its group) together with a target (or its group) exceeds RUB 3 billion (approximately U.S.$112 million) or the total annual revenues of such acquirer (or its group) and the target (or its group) for the preceding calendar year exceed RUB 6 billion (approximately U.S.$224 million) and at the same time the total asset value of the target (or its group) exceeds RUB 150 million (approximately U.S.$5.6 million); or if an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the Register of Entities Having a Market Share in Excess of 35% in a Particular Commodity Market (the "Register");

(ii) mergers and consolidations of entities, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUB 3 billion (approximately U.S.$112 million); or total annual revenues of such entities (groups of persons to which they belong) for the preceding calendar year exceed RUB 6 billion (approximately U.S.$224 million) or if one of these entities is included in the Register;

(iii) foundation of an entity, if its charter capital is paid by the shares (participation interest) and/or the assets of another entity and the newly founded entity acquires the rights in respect of such shares (participation interest) and/or assets as specified in item (i) above provided that the aggregate asset value of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) whose shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity exceeds RUB 3 billion (approximately U.S.$112 million); or total annual revenues of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) whose shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity for the preceding calendar year exceed RUB 6 billion (approximately U.S.$224 million) or if an entity whose shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity is included in the Register.

The Competition Law provides for a mandatory post-transaction notification (within 45 days of the closing) of the anti-monopoly authorities in connection with actions specified in item (i) above if the aggregate asset value or total annual revenues of an acquirer (its group) and a target (its group) for the preceding calendar year exceed RUB 200 million (approximately U.S.$7.5 million) and at the same time the total asset value of the target (its group) exceeds RUB 30 million (approximately U.S.$11.1 million) or if an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the Register; and (ii) above if their aggregate asset value or total annual revenues for the preceding calendar year exceed RUB 200 million (approximately U.S.$7.5 million).

Currency Control

Pursuant to the Federal Law No. 173-FZ "On Currency Regulation and Currency Control", dated 10 December 2003, as amended (the "Currency Law"), currency operations with such instruments as GDRs and Ordinary Shares may be conducted between (i) residents and non-residents and (ii) non-residents both in roubles and in foreign currencies, subject to compliance with securities and anti-monopoly laws and regulations.

Non-residents may receive dividends declared by Russian companies both in foreign currencies (confirmed by the CBR in its Information Letter No. 31, dated 31 March 2005) and roubles. Dividends paid in roubles may be freely converted by non-residents through Russian authorised banks and remitted outside of Russia.

Notification of Foreign Ownership

Foreign persons and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign persons that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of the Company's Ordinary Shares or GDRs.

Certain Russian law considerations for the Offering

Offering Outside the Russian Federation

Russian law requires that a permit from the FSFM must be received prior to effecting an offering of a Russian issuer's shares outside Russia, including offerings of equity securities through either sponsored or unsponsored depositary receipt programmes offering depositary receipts (e.g. GDRs) representing interests in the Russian issuer's shares. On 18 January 2007, the FSFM approved the placement and circulation of up to 79,750,000 Ordinary Shares of the Company, representing 25% of the Company's Ordinary Shares following the Offering, in the form of GDRs, assuming full placement of the newly issued Ordinary Shares by the Company. See "Risk Factors—Risks Relating to the Offering, Ordinary Shares and

GDRs—The number of Ordinary Shares that may be deposited into the GDR programme is limited, and changes in Russian regulatory policy with respect to the placement and circulation of the Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares and GDRs offered in this Offering".

Notification of the FSFM

Pursuant to Russian securities legislation, each holder of ordinary shares must notify a company and the FSFM of the acquisition of 5% or more of the ordinary shares and any subsequent change in the number of the ordinary shares above or below the 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. The notification should contain the name of the shareholder, the name of the company, the state registration number of the ordinary share issuance and the number of ordinary shares acquired. As a general rule, such notifications must be given within five days after the ordinary shares have been transferred to such shareholder's securities account (or a depo account).

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

Deutsche Bank Trust Company Americas has agreed to act as the Depositary for the GDRs. The Depositary's principal New York offices are located at 60 Wall Street, New York, New York 10005, United States and its principal London offices are located at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom. In this summary, the term "GDRs" refers to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are commonly known as "Global Depositary Receipt Certificates" or "GDR Certificates". The GDRs offered and sold in the United States are referred to and will be issued as the Rule 144A GDRs and the GDRs offered and sold outside the United States are referred to and will be issued as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the Depositary.

The Depositary has appointed Deutsche Bank Ltd. to act as the Custodian for the safekeeping of the securities, cash or other property on deposit. The Custodian's principal office is located at 4 Shepkina Street, Moscow 129090, Russia.

The Company has appointed the Depositary pursuant to two separate Deposit Agreements, one for the Rule 144A GDRs and one for the Regulation S GDRs. Copies of the Deposit Agreements are available for inspection by any holder of the GDRs at the principal offices of the Depositary during business hours. This is a summary description of the material terms of the GDRs and of each holder's material rights as an owner of the GDRs. Prospective investors should note that this summary is provided for informational purposes only, is not exhaustive, and is qualified in its entirety by reference to the terms of the Deposit Agreements, which determine rights and obligations of holders and beneficial owners of the GDRs.

Each GDR represents the right to receive one Ordinary Share of the Company on deposit with the Custodian. Each GDR will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDR but which has not been distributed to the 'owners of GDRs due to legal restrictions or practical considerations.

Each owner of a GDR is a party to the applicable Deposit Agreement and is therefore bound by terms of that Deposit Agreement and by the terms of the GDR certificate that represents the relevant GDR. The applicable Deposit Agreement and the GDR certificate specify the rights and obligations of the Company, the owner of the GDR represented by the GDR certificate and the Depositary. Each GDR holder and beneficial owner appoints the Depositary to act as its attorney-in-fact, with full power to delegate, to act on its behalf and to take any and all actions contemplated in the applicable Deposit Agreement, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the Depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable Deposit Agreement.

Initially, GDRs may only be held through a brokerage or safekeeping account. As such, each GDR owner must rely on the procedures of its broker or bank to assert its rights. Each GDR holder should consult with its broker or bank to determine what those procedures are.

No temporary master GDRs or other temporary documents of title have been or will be issued in connection with this offering.

Prior to the receipt by the Depositary of written notice from the Company that the Placement Report with respect to the newly issued Ordinary Shares being offered by the Company has been registered, the GDRs shall be deemed to be issued on a provisional basis and GDR owners will not be able to withdraw the shares underlying their GDRs and will not be able to instruct the Depositary to exercise voting rights with respect to the shares that underlie their GDRs. Also, following the GDR Closing Date, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the Depositary has been notified of the registration of the Placement Report. See "Risk Factors—Risks Relating to the Offering, the Ordinary Shares and the GDRs—GDR holders cannot withdraw Ordinary Shares from, nor deposit Ordinary Shares into, the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs, nor can holders of Ordinary Shares deposit Ordinary Shares into the deposit facility, until the FSFM registers the Company's Placement Report, and a failure to register the Placement Report would result in the newly issued Ordinary Shares and the GDRs being cancelled and reliance by GDR holders on the Company and the Managers to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares".

Distinctions between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are generally similar except for provisions designed to meet the requirements of the U.S. securities laws. The Rule 144A GDRs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not technically "restricted securities" under the U.S. securities laws, but are subject to certain contractual restrictions in order to prevent the transfer of Regulation S GDRs in violation of the U.S. securities laws.

Differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs include the following:

- Eligibility for book-entry transfer. See "—Settlement and Safekeeping".
- Restrictions on the transfers, deposits and withdrawals of the Ordinary Shares underlying the GDRs. See "—Transfer Restrictions".
- Special restrictions on deposits and withdrawals that apply to affiliates of the Company. See "—Ownership of GDRs by Affiliates".

These differences and the restrictions imposed in accordance with U.S. securities laws may require the Company and the Depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently from time to time. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

Settlement and Safekeeping

Rule 144A GDRs

The Depositary has made arrangements with DTC to act as securities depository for the Rule 144A GDRs. All Rule 144A GDRs issued in the Offering will be registered in the name of Cede & Co., as DTC's nominee. One master Rule 144A GDR certificate will represent all Rule 144A GDRs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDRs are accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDR owners.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDRs at any time by giving reasonable notice to the Depositary. Under such circumstances and in the event a successor securities depositary cannot be appointed, individual Rule 144A GDR certificates representing the applicable number of Rule 144A GDRs held by each owner of Rule 144A GDRs will be printed and delivered to the relevant Rule 144A GDR owners. Owners of Rule 144A GDRs will not otherwise receive physical certificates representing their ownership interests in the Rule 144A GDRs.

Regulation S GDRs

The Depositary has made arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the Offering will be registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. One master Regulation S GDR certificate will represent all Regulation S GDRs issued to and registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch. Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their participants, and transfers will be permitted only within Euroclear and Clearstream in accordance with the usual rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDRs will be accomplished by entries made on the books of Euroclear and Clearstream and of participants in Euroclear and Clearstream acting in each case on behalf of Regulation S GDR owners.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDRs, the Company and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make Regulation S GDRs available in physical certificated form. Owners of Regulation S GDRs will not otherwise receive physical certificates representing their ownership interests in the Regulation S GDRs.

Transfer Restrictions

Subject to restrictions on securities dealers pursuant to Section 4(3) of the Securities Act, during the 40 day period from date hereof, the GDRs may be reoffered, resold, pledged or otherwise transferred only in compliance with the U.S. securities laws and are subject to the following restrictions:

Restrictions upon the Transfer of GDRs

Rule 144A GDRs

The Rule 144A GDRs may be reoffered, resold, pledged or otherwise transferred only:

(i) outside the United States in accordance with Regulation S;

or

(ii) to a QIB in a transaction meeting the requirements of Rule 144A under the Securities Act;

or

(iii) pursuant to Rule 144 under the Securities Act, if applicable;

or

(iv) pursuant to an effective registration statement under the Securities Act.

See also "—Ownership of GDRs by Affiliates" below.

Regulation S GDRs

None

Restrictions upon Deposit of Ordinary Shares

Rule 144A GDRs

Subject to any restrictions that may be imposed pending the registration of the Placement Report, Ordinary Shares will be accepted for deposit under the Rule 144A Deposit Agreement only if delivered by, or on behalf of, a person that is:

(i) not the Company or an affiliate of the Company or a person acting on behalf of the Company or an affiliate of the Company;

and

(ii) (a) a QIB or (b) a person outside the United States, as defined in Regulation S under the Securities Act, and who acquired, or agreed to acquire and will have acquired, the Ordinary Shares to be deposited outside the United States.

Regulation S GDRs

Subject to any restrictions that may be imposed pending the registration of the Placement Report, Ordinary Shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is:

(i) not the Company or an affiliate of the Company or a person acting on behalf of the Company or an affiliate of the Company;

and

(ii) not in the business of buying or selling securities, or if such person is in the business of buying or selling securities, such person did not acquire the Ordinary Shares to be deposited from the Company or an affiliate of the Company in the initial distribution of Ordinary Shares and GDRs;

and

(iii) a person outside the United States, as defined in Regulation S under the Securities Act, and who acquired, or agreed to acquire and will have acquired, the Ordinary Shares to be deposited outside the United States.

Ordinary Shares withdrawn from deposit under the Rule 144A Deposit Agreement will not be accepted for deposit pursuant to the Regulation S Deposit Agreement unless such Ordinary Shares are not and may not be deemed to be "restricted securities" within the meaning of Rule 144 (a) (3) under the Securities Act.

Please also see "—Ownership of GDRs by Affiliates" below.

Restrictions upon the Withdrawal of Ordinary Shares

Rule 144A GDRs

So long as the Placement Report has been registered with the FSFM, shares may be withdrawn from the Rule 144A Deposit Agreement only by:

(i) a person located outside the United States, as defined in Regulation S under the Securities Act, who will be the beneficial owner of the Ordinary Shares upon withdrawal and acquired, or agreed to acquire and at or prior to the time of the withdrawal will have acquired, the Rule 144A GDRs, the Rule 144A GDR Certificates or the Ordinary Shares outside the United States;

or

(ii) a QIB, as defined in Rule 144A under the Securities Act, who

(a) has sold the Rule 144A GDRs to another QIB in a transaction meeting the requirements of Rule 144A under the Securities Act, or in accordance with Regulation S under the Securities Act,

or

(b) will be the beneficial owner of the Ordinary Shares and agrees (1) to observe the transfer restrictions applicable to Rule 144A GDRs in respect of the Ordinary Shares so withdrawn and (2) not to deposit the Ordinary Shares in an unrestricted depositary receipts facility for so long as the Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Regulation S GDRs

So long as the Placement Report has been registered with the FSFM, shares may be withdrawn from the Regulation S Deposit Agreement by the holders of Regulation S GDRs.

Please also see "—Ownership of GDRs by Affiliates" below.

General Restrictions

Restrictions on Transfer

The Company may restrict transfers of the Ordinary Shares where such transfer might result in ownership of Ordinary Shares exceeding the limits applicable to the Ordinary Shares under applicable law or the Company's charter. The Company may also restrict transfers of the GDRs where such transfer may result in the total number of Ordinary Shares represented by the GDRs owned by a single holder or beneficial owner exceeding any such limits. The Company may, in its sole discretion, but subject to applicable law, instruct the Depositary to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits set forth in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a holder or beneficial owner of the Ordinary Shares represented by the GDRs held by such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and the Company's charter. The Depositary shall have no liability for actions taken in accordance with such instructions.

The registration of any transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the Depositary, the Company, the Registrar or the Russian Share Registrar are closed, or if any such action is deemed necessary or advisable by the Company or the Depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Ordinary Shares are listed, or under any provision of the Deposit Agreements or provisions of, or governing, the Ordinary Shares, or any meeting of the Company's shareholders or for any other reason.

The Depositary may close the transfer books with respect to GDR Certificates, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder, or at the Company's reasonable request.

Restrictions on Deposits

The Depositary will refuse to accept Ordinary Shares for deposit whenever it is notified in writing by the Company that such deposit would result in any violation of applicable laws, including ownership restrictions under Russian laws. The Depositary will also refuse to accept certain Ordinary Shares for deposit under the Rule 144A Deposit Agreement if notified in writing that the Ordinary Shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any Ordinary Shares presented for deposit are eligible for resale pursuant to Rule 144A under the Securities Act. The Depositary may also, upon receipt of notice from the Company, limit at any time the number of Ordinary Shares accepted for deposit under the terms of the Deposit Agreements so as to eliminate or minimise any requirements that may be imposed on the Company, the Depositary or the GDR facilities existing under the terms of the Deposit Agreements under Russian law.

In addition, whenever the Depositary believes that the Ordinary Shares deposited with it against issuance of GDRs (together with any other securities of the Company deposited with it against the issuance of depositary receipts and any other securities of the Company held by itself and its affiliates for its or their proprietary accounts or as to which it or they exercise voting and investment power) represent (or, upon accepting any additional Ordinary Shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, licence or permit under any applicable law, directive or regulation, or taking any other action, it may (i) close its books to deposits of additional Ordinary Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying Ordinary Shares from the depositary receipt programme to the extent necessary or desirable to so comply.

In particular, the Depositary will have the right to close its books to the issuance of GDRs if at any time the Depositary believes that (i) the shares deposited with it against issuance of GDRs together with any other securities of the Company which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require a shareholder of a Russian open joint stock company to make a mandatory tender offer; or (ii) the shares deposited with it against issuance of GDRs together with any other securities of the Company which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require an approval from the FAS, and no necessary approval from FAS (or an exemption, exemptive interpretation or waiver from the FAS of a requirement to obtain such an approval) has been obtained. See "Description of Share Capital and Applicable Russian Legislation—Approval of the Russian Anti-monopoly Authorities".

The Depositary may also close its books to the deposit of shares if at any time the aggregate number of GDRs in issue would, if additional GDRs were to be issued against the deposit of additional shares, exceed the number of GDRs for which a listing and admission to trading has been obtained, and may keep its books closed to the deposit of shares unless and until the Company shall have produced a prospectus in accordance with the Prospectus Rules under the UK Financial Services & Markets Act 2000, as amended, and obtained a block listing on the Official List of the UK Financial Services Authority and admission to trading on the Regulated Market of the London Stock Exchange of such number of additional GDRs as the Depositary may, in its reasonable discretion, request after consultation with the Company.

In considering whether any threshold has been reached or exceeded, the Depositary may, in addition to shares deposited with it against the issuance of GDRs and other securities of the Company deposited with it against issuance of other depositary receipts, take into consideration shares or the Company's other securities held by it and its affiliates for its or their proprietary accounts or as to which it or they exercise voting or investment power.

Dividends and Distributions

Generally, each GDR holder has the right to receive distributions made by the Company on the securities deposited with the Custodian. Receipt of these distributions may be limited, however, by practical considerations and legal limitations. GDR holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDRs held as at a specified GDR record date, which the Depositary will use reasonable efforts to establish as close as possible to the record date set by the Company for the Ordinary Shares underlying the GDRs.

Distributions of Cash

Whenever the Company makes a cash distribution in respect of securities on deposit with the Custodian, the Company will deposit the funds with the Custodian. Upon receipt of confirmation from the Custodian of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the GDR holders, if in the reasonable judgement of the Depositary it is practicable and lawful. See "—Foreign Currency Conversion" below for actions the Depositary is entitled to take if conversion, transfer and distribution cannot be so made by the Depositary.

The amounts distributed to holders will be net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property, such as undistributed rights, held by the Custodian in respect of the securities on deposit.

Distributions of Ordinary Shares

Whenever there is a free distribution of Ordinary Shares in respect of the Ordinary Shares on deposit with the Custodian, the Company will deposit the applicable number of Ordinary Shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders additional GDRs representing the Ordinary Shares deposited or modify, to the extent permissible by law, the GDR-to-Ordinary Shares ratio, in which case each GDR will represent rights and interests in the additional Ordinary Shares so deposited. Fractional GDRs will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-Ordinary Shares ratio upon a distribution of Ordinary Shares will be made net of the fees, charges, expenses, taxes and governmental charges payable by GDR holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the additional Ordinary Shares so distributed.

No such distribution of new GDRs will be made in violation of applicable laws (including the U.S. securities laws) or if it is not operationally practicable. If the Depositary does not distribute new GDRs as described above, it may sell the Ordinary Shares received and distribute the proceeds of the sale as in the case of a distribution of cash. The Depositary will hold and/or distribute any unsold balance in accordance with the provisions of the applicable Deposit Agreement.

Distributions of Rights

Whenever the Company intends to distribute rights to purchase additional Ordinary Shares, it will give timely prior notice to the Depositary and state whether or not it wishes such rights to be made available to the GDR holders. If the Company requests that rights be made available to GDR holders, the Depositary will determine whether it is lawful and reasonably practicable to distribute the rights to GDR holders.

The Depositary will establish procedures to distribute rights to purchase additional GDRs to GDR holders and to enable GDR holders to exercise such rights only if the Depositary has received the Company's request to make such distribution in a timely manner, and the Depositary shall have determined that it is lawful and reasonably practicable to make the rights available to GDR holders, and the Company has provided all of the documentation contemplated in the applicable Deposit Agreement, such as opinions to address the lawfulness of the transaction. Each GDR holder will be responsible for the related fees, charges, expenses and taxes and other governmental charges to subscribe for the Ordinary Shares upon the exercise of the rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by GDR holders of rights to purchase additional Ordinary Shares other than in the form of GDRs.

The Depositary will not distribute the rights to GDR holders if:

- the Company does not request that the rights be distributed to the GDR holders in a timely manner, or the Company requests that the rights not be distributed to GDR holders; or
- the Company fails to deliver satisfactory documents, such as opinions of counsel as to compliance with applicable law, to the Depositary; or
- it is not reasonably practicable to distribute the rights.

The Depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable in a riskless principal capacity, at such place and upon terms, including public and private sale, as it may deem practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not be responsible for (i) any good faith failure to determine whether it may be lawful or practicable to make such rights applicable to GDR holders in general or to any GDR holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise of rights, or (iii) the content of any materials forwarded to the GDR holders on behalf of the Company in connection with the rights distribution. There can be no assurance that GDR holders in general or any GDR holder in particular will be given the opportunity to exercise rights on the same terms and conditions as the holders of Ordinary Shares or to exercise such rights at all.

Elective Distributions

Whenever the Company intends to distribute a dividend payable at the election of shareholders either in cash or in additional Ordinary Shares, it will give timely prior notice thereof to the Depositary and will indicate whether it wishes the elective distribution to be made available to GDR holders. In such case, the Company will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to GDR holders only if it has received timely prior notice from the Company, if it is reasonably practicable and if the Company has provided all of the documentation contemplated in the applicable Deposit Agreement (such as opinions of counsel as to compliance with applicable law). In such case, the Depositary will establish procedures to enable each GDR holder to elect to receive either cash or additional Ordinary Shares in the form of GDRs, in each case as described in the applicable Deposit Agreement.

If the election is not made available to the GDR holders, GDR holders will, to the extent permitted by law, receive either cash or GDRs, depending on whether a shareholder in Russia would receive cash or shares on failing to make an election. The Depositary is not obliged to make available to GDR holders a method to receive the elective dividend in the form of shares rather than in the form of GDRs.

There can be no assurance that GDR holders or owners of beneficial interests in GDRs generally, or any GDR holder in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Ordinary Shares.

Other Distributions

Whenever the Company intends to distribute property other than cash, additional Ordinary Shares or rights to purchase additional Ordinary Shares, the Company will timely notify the Depositary in advance and will indicate whether it wishes such distribution to be made to GDR holders. If so, the Depositary will determine whether such distribution to GDR holders is lawful and reasonably practicable.

If the Depositary has received timely prior notice from the Company, if it is reasonably practicable to distribute such property to GDR holders and if the Company has provided all of the documentation contemplated in the Deposit Agreements, the Depositary will distribute the property to the GDR holders in a manner it deems practicable.

The distribution will be made net of fees, charges, expenses, taxes and governmental charges payable by GDR holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

Under no circumstances will the Depositary distribute the property to GDR holders if:

- the Company does not request that the property be distributed to GDR holders or the Company does not make such request in a timely manner or the Company asks that the property not be distributed to GDR holders;
- the Company fails to deliver satisfactory documents (such as opinions of counsel as to compliance with applicable law) to the Depositary; or
- the Depositary determines that all or a portion of the distribution to GDR holders is not lawful or reasonably practicable.

Under the circumstances set forth above, the Depositary will sell the property, the proceeds of which will be distributed to GDR holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances. The Depositary shall consult with the Company to the extent reasonably practicable prior to any such sale.

Redemption

Whenever the Company decides to redeem any of the securities on deposit with the Custodian, the Company will notify the Depositary in advance in a timely manner. If the Depositary has received timely notice from the Company, determined that such redemption is practicable and received from the Company all of the documentation (such as opinions of counsel as to compliance with applicable law) contemplated in the Deposit Agreements, the Depositary will mail notice of the redemption to the GDR holders.

The Custodian will be instructed to surrender the Ordinary Shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into U.S. dollars in accordance with the terms of the Deposit Agreements and will establish procedures to enable GDR holders to receive the net proceeds from the redemption upon surrender of the GDRs to the Depositary. See "—Foreign Currency Conversion" for actions the Depositary is entitled to take if conversion, transfer and distribution of funds by the Depositary is not practicable or lawful. The GDR holders will have to pay the fees and charges of, and the expenses incurred by, the Depositary, and any taxes upon the redemption of the GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a pro rata basis, as the Depositary may determine.

Changes Affecting Ordinary Shares

The Ordinary Shares held on deposit for the GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Ordinary Shares or a recapitalisation, reorganisation, merger, consolidation or sale of assets affecting the Company.

If any such change were to occur, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Ordinary Shares shall, to the extent permitted by law, be treated as new securities under the Deposit Agreements, and the GDR Certificates shall, subject to the terms of the Deposit Agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The Depositary in such circumstances may with the Company's approval, and shall if the Company so requests and if the Company provides the Depositary at the Company's own expense a satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR Certificates or make appropriate adjustments in its records, or call for the exchange of existing GDRs for new GDRs. If the Depositary may not lawfully distribute such securities to GDR holders, the Depositary may with the Company's approval sell such securities and distribute the net proceeds to GDR holders as in the case of a cash distribution, and shall do so upon the Company's request and if the Company provides the Depositary at the Company's own expense a satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. GDR owners will have to pay the fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the sale of such securities.

The Depositary shall not be responsible for (i) any good faith failure to determine that it is lawful or practicable to make such securities available to GDR holders in general or to any GDR holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with such sale, or (iii) any liability to the purchaser of such securities.

Issuance of GDRs upon Deposit of Ordinary Shares

Subject to limitations set forth in the Deposit Agreements and the GDRs, the Depositary may create GDRs on a GDR holder's behalf if the GDR holder or its broker deposits the Ordinary Shares with the Custodian. The Depositary will deliver these GDRs to the person indicated by the GDR holder only after any applicable issuance fees and any charges and taxes payable for the transfer of the Ordinary Shares to the Custodian are paid by the GDR holder and the applicable deposit certification is provided. Each GDR holder's ability to deposit Ordinary Shares and receive GDRs may be limited by U.S. and Russian legal considerations applicable at the time of deposit.

The issuance of GDRs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the Ordinary Shares have been duly transferred to the Custodian. The Depositary will only issue GDRs in whole numbers.

Each prospective GDR holder will be responsible for transferring good and valid title for deposited Ordinary Shares to the Depositary, as evidenced by documents satisfactory to the Depositary or the Custodian. As such, each GDR holder will be deemed to have represented and warranted that:

- the Ordinary Shares are duly authorised, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emption, or similar rights, if any, with respect to such Ordinary Shares have been validly waived or exercised;
- the holder has due authorisation to deposit the Ordinary Shares;
- all requirements of applicable law or regulation have been fulfilled with respect to the Ordinary Shares or the deposit thereof against the issuance of Regulation S GDRs;
- the Ordinary Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of Ordinary Shares under the Regulation S Deposit Agreement, the Ordinary Shares are not, and the Regulation S GDRs issuable upon such deposit will not be, "restricted securities", as defined in Rule 144(a) (3) under the Securities Act, except in the case of deposits of a kind described in "—Ownership of GDRs by Affiliates";
- the Ordinary Shares presented for deposit have not been stripped of any rights or entitlements;
- the Ordinary Shares are not subject to any unfulfilled requirements of applicable law or regulation; and
- except as provided in the Deposit Agreements and summarised under "—Ownership of GDRs by Affiliates" below, it is not, and shall not become while holding GDRs, an Affiliate of the Company.

If any of the representations or warranties above are incorrect in any way, the Company and the Depositary may, at the breaching GDR holder's cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When Ordinary Shares are deposited under the Rule 144A Deposit Agreement, the prospective GDR holder will be required to provide the Depositary with a deposit certification stating, among other things, that:

- it acknowledges that the Ordinary Shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- it is not an Affiliate of the Company and it is not acting on behalf of the Company or one of its Affiliates;

- at the time of issuance of the Rule 144A GDRs it will be the beneficial owner thereof;
- it is (i) a QIB or (ii) a person outside the United States and has acquired or has agreed to acquire and will acquire the Ordinary Shares to be deposited outside the United States; and
- it agrees, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs or the Ordinary Shares represented by the Rule 144A GDRs in accordance with the applicable U.S. state securities laws and only:
  - to a QIB in a transaction meeting the requirements of Rule 144A; or
  - outside the United States in accordance with Regulation S; or
  - in accordance with Rule 144 under the Securities Act, if available; or
  - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When Ordinary Shares are deposited to receive Regulation S GDRs, the prospective GDR holder will be required to provide the Depositary with a deposit certification stating, among other things, that:

- it acknowledges that the Ordinary Shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- it is not an Affiliate of the Company and it is not acting on behalf of the Company or one of its Affiliates;
- it is, or at the time the Ordinary Shares are deposited and at the time the Regulation S GDRs are issued, will be, the beneficial owner of the Ordinary Shares and the Regulation S GDRs to be issued upon deposit of such Ordinary Shares;
- it is a person outside the United States and has acquired or has agreed to acquire and will acquire the Ordinary Shares to be deposited outside the United States; and
- it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Ordinary Shares presented for deposit from the Company or any of the Company's Affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary on request.

Withdrawal of Ordinary Shares Upon Cancellation of GDRs

The GDRs representing Ordinary Shares offered and sold by the Company pursuant to the terms of this Prospectus have been issued by the Depositary on a provisional basis until the Company notifies the Depositary in writing that the FSFM has registered the Placement Report in respect of the newly issued Ordinary Shares it is offering in the form of GDRs. Until such time, the GDRs will not be eligible for cancellation and withdrawal of underlying Ordinary Shares will not be permitted and the Depositary will refuse to honour any GDR cancellation requests from GDR holders. See "Risk Factors—Risks Relating to the Offering, the Ordinary Shares and the GDRs—GDR holders cannot withdraw Ordinary Shares from, nor deposit Ordinary Shares into, the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs, nor can holders of Ordinary Shares deposit Ordinary Shares into the deposit facility, until the FSFM registers the Company's Placement Report, and a failure to register the Placement Report would result in the newly issued Ordinary Shares and the GDRs being cancelled and reliance by GDR holders on the Company and the Managers to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares."

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, a GDR holder will be entitled to present its GDRs to the Depositary for cancellation and then receive the corresponding number of underlying Ordinary Shares at the Custodian's offices. The ability to withdraw the Ordinary Shares may be limited by U.S. and Russian law considerations applicable at the time of withdrawal.

In order to withdraw the Ordinary Shares represented by the GDRs, each GDR holder will be required to pay to the Depositary the fees for cancellation of the GDRs and any changes and taxes payable upon the transfer of the Ordinary Shares being withdrawn and will be required to provide to the Depositary the applicable withdrawal certification. Each GDR holder assumes the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDRs will not have any rights under the corresponding Deposit Agreement.

Each GDR holder must, upon the request of the Depositary, provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel the GDRs. The withdrawal of the Ordinary Shares represented by GDRs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. The Depositary shall be entitled at all times to sell any fractional GDRs presented for cancellation and remit the proceeds of such sale to the GDR holder net of fees, expenses, charges and taxes.

When a GDR holder requests withdrawal of the Ordinary Shares represented by its Rule 144A GDRs, it will be required to represent and warrant that the withdrawal of the shares complies with the restrictions on transfer set forth in the legend on GDRs and to provide the Depositary with a withdrawal certification stating, among other things, that:

(A) it acknowledges that the Ordinary Shares represented by its Rule 144A GDRs have not been and will not be registered under the Securities Act or with any other securities regulatory authority in any state or other jurisdiction in the United States; and

(B) it certifies that either:

    (1) it is a QIB, as defined under Rule 144A of the Securities Act, acting for its own account or for the account of one or more other QIBs, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and either

    - it has sold or agreed to sell the Ordinary Shares to a person outside the United States in accordance with Regulation S; or
    - it has sold or agreed to sell the Ordinary Shares to a QIB in a transaction meeting the requirements of Rule 144A under the Securities Act; or
    - it will be the beneficial owner of the Ordinary Shares upon withdrawal; and
        - it, or the person on whose behalf it is acting, will sell the Ordinary Shares only to another QIB in a transaction meeting the requirements of Rule 144A under the Securities Act; outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; or pursuant to an effective registration statement under the Securities Act; and
        - it will not deposit the Ordinary Shares in any Depositary receipts facility that is not a "restricted" Depositary receipts facility;

    or

    (2) it is a person located outside the United States and has acquired or agreed to acquire the Ordinary Shares outside the United States and will be the beneficial owner of the Ordinary Shares upon withdrawal.

Holders of Regulation S GDRs are not required to provide the Depositary with a withdrawal certification under the Regulation S Deposit Agreement, except in the case of an exchange of Rule 144A GDRs for Regulation S GDRs by one of the Company's Affiliates. See "—Ownership of GDRs by Affiliates" below.

Proofs, Certificates and Other Information; Obligations of Owners

Each GDR holder may be required (i) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs, compliance with all applicable laws and the terms of the Deposit Agreements, and (ii) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary or the Custodian may deem necessary or proper or as the Company may reasonably require by written request to the Depositary consistent with its obligations under the Deposit Agreements. The Depositary and the Registrar, as defined in the applicable Deposit Agreement, may withhold the execution or delivery or registration of transfer or cancellation of any GDR Certificate, or the distribution or sale of any dividend or distribution of rights, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the Depositary's, the Registrar's, and the Company's reasonable satisfaction.

Holders and beneficial owners of GDRs shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in the Russian Federation, and shall take all such other actions as may be required to remain at all times in compliance with the applicable rules and regulations of the Russian Federation.

Ownership of GDRs by Affiliates

The Company permits its Affiliates to deposit Ordinary Shares against the issuance of Rule 144A GDRs, so long as they satisfy the requirements, including delivery of the requisite certifications to the Depositary, of the Rule 144A Deposit Agreement. The Company also permits its Affiliates to exchange their Rule 144A GDRs for Regulation S GDRs solely to allow them to sell their GDRs in transactions meeting the requirements of Regulation S, so long as each exchanging Affiliate delivers the requisite certifications to the Depositary and otherwise satisfies the requirements of the Deposit Agreements. The Company does not otherwise permit its Affiliates to deposit Ordinary Shares against the issuance of Regulation S GDRs unless they certify to the Depositary that they have sold or irrevocably agreed to sell the Regulation S GDRs to be issued in respect of the Ordinary Shares so deposited in a transaction meeting the requirements of Regulation S, and deliver the other requisite certifications to the Depositary.

The requirements for such deposits and exchanges of GDRs by the Company's Affiliates are more fully described in the Deposit Agreements.

Voting Rights

Each GDR holder generally has the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the Ordinary Shares represented by its GDRs, other than when such GDRs shall be deemed to be issued on a provisional basis. See "—Risk Factors—Risks Relating to the Offering, the Ordinary Shares and the GDRs—GDR holders cannot withdraw Ordinary Shares from, nor deposit Ordinary Shares into, the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs, nor can holders of Ordinary Shares deposit Ordinary Shares into the Deposit Facility, until the FSFM registers the Company's Placement Report, and a failure to register the Placement Report would result in the newly issued Ordinary Shares and the GDRs being cancelled and reliance by GDR holders on the Company and the Managers to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares."

Upon the Company's timely written request, and provided no U.S., English or Russian legal prohibitions, including the rules of the London Stock Exchange or the rules of any Russian stock exchange on which the Ordinary Shares are listed, exist, the Depositary will distribute to each GDR holder any notice of shareholders' meetings or solicitation of consents or proxies from holders of Ordinary Shares received from the Company together with information explaining how to instruct the Depositary to exercise the voting rights of the Ordinary Shares represented by the GDRs.

If the Depositary receives voting instructions in a timely manner from a GDR holder in the manner specified by the Depositary, it will endeavour—insofar as practicable and permitted under applicable law, the provisions of the applicable Deposit Agreement, the Company's charter and terms of the Ordinary Shares—to vote or cause the Custodian to vote the Ordinary Shares represented by the GDR holder in accordance with such voting instructions. Russian securities regulations expressly permit a Depositary to split the vote of Ordinary Shares registered in its name in accordance with instructions from GDR holders. However, because the Depositary does not have express statutory authority to split the vote with respect to the Ordinary Shares in accordance with instructions from GDR holders, and given the untested nature of such securities regulations, the Depositary may refrain from voting at all unless all GDR holders have instructed it to vote the Ordinary Shares in the same manner. Consequently, each GDR holder may have significant difficulty in exercising its voting rights with respect to the underlying Ordinary Shares.

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of Ordinary Shares other than an integral number thereof or vote Ordinary Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, attempt to exercise the right to vote, or in any way make use of, for purposes of establishing a quorum or otherwise, the Ordinary Shares except pursuant to and in accordance with instructions from GDR holders. If the Depositary receives timely voting instructions from a GDR holder which fail to specify the manner in which the Depositary is to vote the GDR holder's underlying Ordinary Shares, the Depositary will deem the GDR holder to have instructed the Depositary not to vote the Ordinary Shares with respect to the items for which no instruction was given.

Notwithstanding anything else contained in the Deposit Agreements, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the Ordinary Shares if the taking of such action would violate U.S., Russian or English laws, including the rules of the London Stock Exchange and the rules of any Russian exchange on which the Ordinary Shares are listed. The Company has agreed in the Deposit Agreements that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the section of the Deposit Agreements that deals with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. GDR holders cannot be assured that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See generally "Risk Factors—Risks Relating to the Offering, Ordinary Shares and GDRs—The Deposit Agreements for the GDRs and relevant requirements of Russian law limit the voting rights of holders of GDRs with respect to the Ordinary Shares represented by GDRs".

Fees and Charges

The Depositary shall be entitled to charge the following fees to GDR owners and persons depositing Ordinary Shares or surrendering GDRs for cancellation:

- for the issue of GDRs (other than upon the issue of GDRs pursuant to the Initial Offering, as defined in the Deposit Agreements) or the cancellation of GDRs upon the withdrawal of deposited securities, or for transferring interests from and between the Regulation S GDRs and the Rule 144A GDRs: up to U.S.$0.05 per GDR issued or cancelled;
- for the issue of GDR Certificates in definitive registered form in replacement of mutilated, defaced, lost, stolen or destroyed GDR Certificates: a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
- for any other issue of GDR Certificates in definitive registered form: a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;
- for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Securities: a fee of up to U.S.$0.02 per GDR for each such dividend or distribution;
- in respect of any issue of rights or distribution of Ordinary Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): up to U.S.$0.05 per GDR for each such issue of rights, dividend or distribution;
- for the operation and maintenance costs associated with the administration of the GDRs: an annual fee of U.S.$0.02 per GDR (such fee to be assessed against holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions);
- for the expenses incurred by the Depositary, the Custodian or their respective agents in connection with inspections of the relevant share register maintained by the local Registrar and/or performing due diligence on the Central Securities Depository for the Russian Federation: an annual fee of U.S.$0.01 per GDR (such fee to be assessed against holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions); and
- for the issue of GDRs pursuant to a change for any reason in the number of Ordinary Shares represented by each GDR, regardless of whether or not there has been a deposit of Ordinary Shares to the Custodian or the Depositary for such issuance: a fee of up to U.S.$0.05 per GDR (or portion thereof).

Each such person will also be responsible for paying the following charges incurred by the Depositary:

- taxes, including applicable interest and penalties, and governmental charges;
- fees for the transfer and registration of Ordinary Shares charged by the Share Registrar (i.e., upon deposit and withdrawal of Ordinary Shares);
- fees and expenses incurred for converting foreign currency into U.S. dollars and compliance with exchange control regulations;
- expenses for fax transmissions and for delivery of securities; and
- fees and expenses incurred in connection with the delivery or servicing of Ordinary Shares on deposit.

The Company has agreed to pay certain other charges and expenses of the Depositary. The fees and charges that a GDR holder may be required to pay may vary over time and may be changed by the Company and by the Depositary. Each GDR holder will receive prior notice of such changes.

Amendments and Termination

The Company may agree with the Depositary to modify the Deposit Agreements at any time without the consent of the GDR holders. The Company undertakes to give the GDR holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements or that shall impose or increase fees or charges, other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses. The Company will not consider any modifications or supplements that are reasonably necessary for the GDRs to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges the GDR holders are required to pay, to be materially prejudicial to the rights of the GDR holders. In addition, the Company may not be able to provide the GDR holders with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

Each GDR holder will be bound by the modifications to the Deposit Agreements if it continues to hold its GDRs after the modifications to the applicable Deposit Agreements become effective.

The Deposit Agreements cannot be amended to prevent the GDR holders from withdrawing the Ordinary Shares represented by the GDRs. Notwithstanding any such restriction on amendments or supplements to the Deposit Agreements, the Company and the Depositary may at any time amend or supplement the Deposit Agreements or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to GDR holders or within any other period required to comply with such laws, rules or regulations.

The Company has the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In addition, the Depositary may resign, with such resignation to take effect upon the earlier of 90 days' notice or the acceptance of appointment by a successor Depositary, or the Company may remove the Depositary, with such removal to take effect upon the later of 90 days' notice or the acceptance of appointment by a successor Depositary, and if in either such case no successor Depositary shall have accepted appointment by the Company, then the Depositary may terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders of the GDRs at least 30 days before termination.

Upon termination, the following will occur under the Deposit Agreements:

- for a period of six months after termination, each GDR holder will be able to request the cancellation of its GDRs and the withdrawal of the underlying Ordinary Shares and the delivery of all other property held by the Depositary in respect of those Ordinary Shares on the same terms as prior to the termination including the payment of any applicable taxes or governmental charges. During such six-months period the Depositary will continue to collect all distributions received on the Ordinary Shares on deposit, such as dividends, but will not distribute any such property to a GDR holder until it requests the cancellation of its GDRs.
- after the expiration of such six-month period, the Depositary may sell the securities held on deposit. The Depositary will hold the net proceeds from such sale and any other funds then held for the GDR holder in an unsegregated, non-interest bearing account, without liability for interest. At that point,

the Depositary will have no further obligations to a GDR holder other than to account for the funds then held for the holders of GDRs still outstanding, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Books of Depositary

The Depositary will maintain GDR holder records at its principal office in New York and, if no book-entry settlement system is available for the relevant GDRs, at its principal office in London as well (although no register in respect of any GDRs will be maintained at the London office). Each GDR holder may inspect such records at such office during regular business hours but solely for the purpose of communication with other holders in the interest of business matters relating to the GDRs and the Deposit Agreements.

The Depositary will maintain facilities in New York and London to record and process the issuance, cancellation, combination, split-up and transfer of GDRs, provided that the transfer of the GDRs shall only be effected when registered by the Registrar (as defined in the applicable Deposit Agreement), including the Depositary acting through its principal New York office in its capacity as the Registrar. These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of Notices to Shareholders

The Company will promptly transmit to the Depositary those communications that applicable law requires the Company to make available to its shareholders. If any communications are not in English, the Company will translate the communications prior to transmitting them to the Depositary. Upon the Company's request and at its expense, the Depositary will arrange for the mailing of copies of such communications to all GDR holders and will make a copy of such communications available for inspection at its principal offices in New York and London.

Limitations on Obligations and Liabilities

The Deposit Agreements limit the Company's obligations and the Depositary's obligations to the GDR holders, in particular:

- The Company and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.
- Neither the Company nor the Depositary, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect to any Ordinary Shares or in respect of the GDR Certificates, which in their respective opinions may involve the Company or the Depositary, or any of their respective controlling persons or agents, or any of their controlling persons or agents, as the case may be, against all expense or liability, unless an indemnity satisfactory to the Company or the Depositary, as the case may be, against all expense (including fees and disbursements of counsel), and liability be furnished as often as may be required, and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary.
- The Depositary and its agents disclaim any liability for any failure to carry out any voting instructions to vote any shares, or for any manner in which a vote is cast or for the effect of any vote, provided it acts without negligence and in good faith and in accordance with the terms of the Deposit Agreements.
- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document or information forwarded to the GDR holders on the Company's behalf or for the accuracy of any translation of such document or information, for any investment risks associated with acquiring an interest in the Ordinary Shares, for the validity or worth of the Ordinary Shares, for any tax consequences that result from the ownership of the shares or the GDRs, for the creditworthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements or for the failure or timeliness of any of the Company's notices.
- The Depositary and the Custodian disclaim any liability with respect to Russia's system of share registration and custody, including any liability in respect of the unavailability of the Ordinary Shares or other deposited securities, or any distribution in respect thereof.
- The Company and the Depositary agree that neither the Depositary nor the Custodian assumes any obligation or responsibility to make any payments for, nor shall either of them be subject to any

liability under the Deposit Agreements or otherwise for nonpayment for, any Ordinary Shares newly issued and placed by the Company or sold by any selling shareholders in the Offering.

- The Depositary disclaims any liability for any acts or omissions made by a successor Depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations while it acted as Depositary without negligence or bad faith.
- The Company, the Depositary, and the Company's or the Depositary's Affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing will not be obliged to do or perform any act that is inconsistent with the provisions of the Deposit Agreements.
- The Company, the Depositary, and the Company's or the Depositary's Affiliates and the respective officers, directors, employees, agents and advisers of any of the foregoing disclaim any liability if the Company or the Depositary is prevented or forbidden from or delayed in doing or performing any act or thing required by the terms of the Deposit Agreements by reason of any provision of any law or regulation, any provision of its charter, any provision of or governing any securities on deposit or by reason of any act of God or war or other circumstances beyond its control, including, without limitation, nationalisation, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure.
- The Company, the Depositary, and the Company's or the Depositary's Affiliates and the respective officers, directors, employees, agents and advisers of any of the foregoing disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in its charter or in any provisions of or governing the deposited securities.
- The Company, the Depositary, and the Company's or the Depositary's Affiliates and the respective officers, directors, employees, agents and advisers of any of the foregoing further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any GDR holders or authorised representatives thereof, or any other person believed by either of the foregoing in good faith to be competent to give such advice or information.
- The Company, the Depositary, and the Company's or the Depositary's Affiliates and the respective officers, directors, employees, agents and advisers of any of the foregoing also disclaim liability for the inability by a GDR holder or any beneficial owner to benefit from any distribution, offering, right or other benefit which is made available to holders of Ordinary Shares but is not, under the terms of the Deposit Agreements, made available to holders of the GDRs.
- The Company, the Depositary, and the Company's respective controlling persons and agents and the Custodian may rely and shall be protected in acting upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- The Company, the Depositary, and the Company's or the Depositary's Affiliates and the respective officers, directors, employees, agents and advisers of any of the foregoing also disclaim any liability for indirect, special, consequential or punitive damages for any breach of the terms of the applicable Deposit Agreement.
- The Depositary disclaims liability for any actions taken in accordance with the Company's instructions to take actions with respect to the ownership interest of any holder or beneficial owner in excess of the limits applicable to the Ordinary Shares under applicable law or the Company's charter.

Indemnification

The Depositary has agreed to indemnify the Company and its directors, officers, employees, agents and Affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expense of counsel, which may arise out of information contained in the section "Information Relating to the Depositary" in this Prospectus, or acts performed or omitted by the Depositary or, provided that the Custodian is a branch or subsidiary of Deutsche Bank AG, London Branch at the time of such act or omission, by the Custodian under the Deposit Agreements due to the negligence or bad faith of the Depositary or, provided that the Custodian is a branch or subsidiary of Deutsche Bank AG, London Branch at the time of such act or omission, the Custodian.

The Company has agreed to indemnify the Depositary, the Custodian and any of their respective directors, officers, employees, agents and Affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expenses of counsel, that may arise, among other things: (i) out of any offer or sale of the GDRs or the Ordinary Shares, (ii) out of any offering document in respect thereof, except to the extent of the information contained in the section "Information Relating to the Depositary" in this Prospectus, (iii) out of acts performed or omitted in accordance with the provisions of the Deposit Agreements, in any such case by the Depositary, the Custodian or any of their respective directors, officers, employees, agents and Affiliates, except to the extent such loss, liability, tax, charge or expense is due to the negligence or bad faith of any of them, or by the Company or any of its directors, officers, employees, agents and Affiliates or (iv) out of the unavailability of deposited securities or the failure to make any distribution with respect thereto in certain situations.

Pre-Release Transactions

The Depositary may, in certain circumstances, issue GDRs before receiving a deposit of Ordinary Shares or release Ordinary Shares before receiving GDRs for cancellation. These transactions are commonly referred to as "pre-release transactions". The Deposit Agreements limit the aggregate size of pre-release transactions and impose a number of conditions on such transactions, concerning the need to receive collateral, the type of collateral required, the representations required from brokers. The Depositary may retain the compensation received from the pre-release transactions.

Concurrently with the execution of the Deposit Agreements, the Company instructed the Depositary not to allow any pre-release transaction to remain outstanding during the period from and including the date that is five business days before the earlier of (a) the date on which the Shares become "ex dividend" with respect to any distribution under the normal market conventions of Russia and (b) the date(s) on which the GDRs become "ex dividend" with respect to such distribution under the normal market conventions of the market(s) in which they are traded, up to and including the date that is five business days after the date that the distribution is paid.

Taxes

The Company, the Depositary and the Custodian may withhold or deduct from any distribution the taxes and governmental charges payable by GDR holders and may sell any and all Ordinary Shares on deposit to pay the taxes and governmental charges payable by GDR holders. The GDR holders will be liable for any deficiency if the sale proceeds do not cover the taxes that are due. The Depositary may refuse to issue GDRs, to deliver, transfer, split or combine GDRs or to release securities on deposit, until all taxes and charges are paid by the GDR holder.

The Company, the Depositary and/or the Custodian and/or their respective agents may, but are not obligated to, take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on a GDR holder's behalf. However, each GDR holder may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfil legal obligations. Each GDR holder and beneficial owner is required to indemnify the Company, the Depositary and the Custodian and any of their respective agents, officers, employees and Affiliates for, and to hold each of them and the Company harmless from, any claims with respect to taxes, including applicable interest and penalties thereon, based on any tax benefit obtained for such holder and beneficial owner.

The Depositary is under no obligation to provide the GDR holders with any information about the Company's tax status. Neither the Depositary nor the Custodian shall incur any liability for any tax consequences that may be incurred by the GDR holders on account of their ownership of the GDRs, including, without limitation, by virtue of the Company's tax status.

Disclosure of Interests

By purchasing GDRs, each GDR holder agrees to comply with requests from the Company or the Depositary pursuant to Russian law, the rules and requirements of any stock exchange on which the Ordinary Shares are, or may be, registered, traded or listed, or the Company's charter, which are made to provide information, among other things, as to the capacity in which a holder holds or owns a beneficial interest in the GDRs and the Ordinary Shares, as the case may be, and regarding the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not a particular person or entity is a holder or owner of a beneficial interest in the GDRs at the time of such request.

Foreign Currency Conversion

The Depositary will arrange for the conversion into U.S. dollars of all foreign currency received if such conversion is in the reasonable judgement of the Depositary practicable, and it will distribute the U.S. dollars in accordance with the terms of the Deposit Agreements. Each GDR holder will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary may, but is not obliged to, make any filing with any governmental authority required to obtain an approval or licence necessary for any conversion of any foreign currency into or distribution of U.S. dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the GDR holders for whom the conversion and distribution is lawful and practicable;
- distribute the foreign currency to GDR holders for whom the distribution is lawful and practicable; and
- hold the foreign currency, without liability for interest, for the relevant GDR holders.

The Depositary will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the Depositary cannot convert the roubles, GDR holders may lose some or all of the value of the distribution.

Governing Laws and Arbitration of Disputes

Although New York law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDRs, the rights of holders of the Ordinary Shares and other deposited securities and the Company's obligations and duties in respect of such GDR holders shall be governed by the laws of Russia, or the laws of such other jurisdiction as may govern the deposited securities.

Under the terms of the Deposit Agreements, GDR holders agree that any dispute, controversy or cause of action against the Company and/or the Depositary arising out of the GDRs, the Deposit Agreements or any transaction contemplated therein, the Ordinary Shares or other deposited securities, will be referred to and resolved by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the Deposit Agreements.

EACH PARTY TO THE DEPOSIT AGREEMENTS, INCLUDING HOLDERS AND BENEFICIAL OWNERS OF GDRS, IRREVOCABLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED UNDER THE DEPOSIT AGREEMENTS, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY.

Russian Share Register

The Company has appointed OJSC Registrar R.O.S.T. as the Registrar of the Ordinary Shares in Russia and the Company has agreed to take any and all action necessary to continue such appointment or the appointment of another Russian Share Registrar reasonably acceptable to the Depositary, for so long as the GDRs remain outstanding or any of the Deposit Agreements remain in force.

The Company has agreed in the Deposit Agreements to:

- take any and all actions reasonably required to ensure the accuracy and completeness of all of the information contained in the register of shareholders maintained by the Share Registrar;
- provide or use reasonable efforts to cause the Share Registrar to provide unrestricted access by the Depositary and the Custodian to the register of shareholders regularly, at least monthly, so as to permit verification of the registration of the Ordinary Shares represented by the GDRs in the name of the Depositary or the Custodian or their respective nominees;

- use reasonable efforts to cause the Share Registrar to promptly notify the Depositary of (i) any material and uncured breaches by the Share Registrar of the terms of the Deposit Agreements, and (ii) any time the Share Registrar will no longer be able to materially comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the Deposit Agreements relating to it;
- use reasonable efforts to cause the Share Registrar to promptly re-register the Ordinary Shares being deposited into or withdrawn from the GDR facilities; and
- use reasonable efforts to cause the Share Registrar to promptly (and, in any event, within three (3) business days in Moscow, Russia, of the receipt by the Share Registrar of such documentation as may be required by applicable law and regulation and the reasonable and customary internal regulations of the Share Registrar, or as soon as practicable thereafter) notify the Depositary of (i) any alleged unlawful removal of shareholders from the shareholders' register, or any alleged unlawful alteration of shareholder records, (ii) any alleged unlawful refusal to register the Ordinary Shares, and (iii) any time the Share Registrar holds the Ordinary Shares for its own account.

In the Deposit Agreements, the Company has agreed to assume liability for:

- any act or failure to act of the Share Registrar, other than such act or failure to act arising in connection with any act or failure to act by the Depositary or the Custodian (or their respective directors, employees, agents or Affiliates); and
- the unavailability of the Ordinary Shares on deposit under the terms of, or the failure of the Depositary to make any distributions with respect thereto contemplated by, the Deposit Agreements as a result of any one or more of the following: (i) any act or failure to act by the Company or its agents, the Russian Share Registrar (other than such act or failure to act arising in connection with any act or failure to act by the Depositary or the Custodian (or their respective directors, employees, agents or Affiliates)), or their respective directors, employees, agents or Affiliates, (ii) any provision of the Company's present or future charter, or other documents relating to the Ordinary Shares, and (iii) any provisions of any securities the Company issues or distributes and any related distribution or offering.

The Depositary has agreed, for the benefit of the holders and beneficial owners of GDRs, to confirm at least monthly, the number of Ordinary Shares identified on the share register as being on deposit pursuant to the terms of the Deposit Agreements. The Company has agreed with the Depositary that the Custodian shall maintain in custody duplicate share extracts provided by the Share Registrar and that any known discrepancies between the records of the Depositary and the Custodian, on the one hand, and the records of the Share Registrar, on the other hand, will be brought to the Company's attention promptly. The Company will use reasonable efforts to cause the Share Registrar to reconcile any discrepancies and to effect the requisite corrections to the share register. In the event the Company is unable to obtain such reconciliation of records and the discrepancy exceeds 0.5% of the number of Ordinary Shares identified on the records of the Depositary or the Custodian as being on deposit under the terms of any one of the Deposit Agreements, the Company will give notice thereof to the holders and beneficial owners of GDRs, through the Depositary, and the Depositary shall cease issuance of new GDRs until the records have been appropriately reconciled.

Securities Act Legends and Other Legends

Legends for the Regulation S GDR Certificates

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT BT GLOBENET NOMINEES LIMITED, AS NOMINEE OF DEUTSCHE BANK AG, LONDON BRANCH, AS COMMON DEPOSITARY FOR EUROCLEAR AND CLEARSTREAM, IS THE RECORD OWNER OF THE NUMBER OF REGULATION S GDRs INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF JOINT STOCK COMPANY POLYMETAL, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"). AT THE DATE HEREOF, EACH REGULATION S GDR SHALL REPRESENT ONE (1) SUCH SHARE DEPOSITED UNDER THE REGULATION S DEPOSIT AGREEMENT (AS HEREINAFTER

DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE REGULATION S DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD. (THE "CUSTODIAN").

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE REGULATION S DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THIS REGULATION S DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, ANY SHARES NEWLY ISSUED AND PLACED BY THE COMPANY OR SOLD BY ANY SELLING SHAREHOLDERS IN THE OFFERING (INCLUDING ANY EXERCISE BY THE UNDERWRITERS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE OFFERING HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE REGULATION S GDRs EVIDENCED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS REGULATION S GDR CERTIFICATE OR THE REGULATION S DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS CERTIFICATE OR SECTION 2.7 OF THE REGULATION S DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS REGULATION S GDR CERTIFICATE OR SECTION 4.10 OF THE REGULATION S DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS (IF ANY) AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY A REPRESENTATIVE OF THE UNDERWRITERS FOR THE OFFERING, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE DELIVERED TO THE DEPOSITARY AND FROM THE TIME OF ITS RECEIPT OF SUCH PROCEEDS THIS REGULATION S GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN U.S. DOLLARS WILL BE CONVERTED INTO U.S. DOLLARS (AT MARKET

RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRs, IN EACH CASE ON THE TERMS OF THE REGULATION S DEPOSIT AGREEMENT. THE REGULATION S GDRs WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS REGULATION S GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRs MAY BE LESS THAN THE PRICE AT WHICH THE REGULATION S GDRs HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDER THEREOF, AND SUCH DISTRIBUTION MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING REGULATION S GDRs REPRESENTED BY THIS CERTIFICATE, AGREES, FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY, THAT THE REGULATION S GDRs REPRESENTED HEREBY MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS, UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Legends for the Rule 144A GDR Certificates

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Depository or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), any transfer, pledge, or other use hereof for value or otherwise by or to any person is wrongful inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT CEDE & CO., AS NOMINEE OF THE DEPOSITORY TRUST COMPANY ("DTC"), IS THE RECORD OWNER OF THE NUMBER OF RULE 144A GDRs INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF JOINT STOCK COMPANY POLYMETAL, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"). AT THE DATE HEREOF, EACH RULE 144A GDR SHALL REPRESENT ONE (1) SHARE DEPOSITED UNDER THE RULE 144A DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE RULE 144A DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD. (THE "CUSTODIAN").

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES

ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. ANY OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE RULE 144A DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THIS RULE 144A DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, ANY SHARES NEWLY ISSUED AND PLACED BY THE COMPANY OR SOLD BY ANY SELLING SHAREHOLDERS IN THE OFFERING (INCLUDING ANY EXERCISE BY THE UNDERWRITERS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE OFFERING HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE RULE 144A GDRs EVIDENCED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS RULE 144A GDR CERTIFICATE OR THE RULE 144A DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS CERTIFICATE OR SECTION 2.7 OF THE RULE 144A DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO

GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RECEIPT AND SECTION 4.10 OF THE RULE 144A DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS (IF ANY) AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY A REPRESENTATIVE OF THE UNDERWRITERS FOR THE OFFERING, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE DELIVERED TO THE DEPOSITARY AND FROM THE TIME OF ITS RECEIPT OF SUCH PROCEEDS THIS RULE 144A GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN U.S. DOLLARS WILL BE CONVERTED INTO U.S. DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRs, IN EACH CASE UPON THE TERMS OF THE RULE 144A DEPOSIT AGREEMENT. THE RULE 144A GDRs WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS RULE 144A GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRs MAY BE LESS THAN THE PRICE AT WHICH THE RULE 144A GDRs HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDER THEREOF, AND SUCH DISTRIBUTION MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING RULE 144A GDRs REPRESENTED BY THIS CERTIFICATE, AGREES, FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY, THAT THE RULE 144A GDRs REPRESENTED HEREBY MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS, UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

TAXATION

The following summary of the principal United States federal income, United Kingdom and Russian tax consequences of ownership of the Ordinary Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the Ordinary Shares or GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Ordinary Shares or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the Ordinary Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPCTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a description of the principal U.S. federal income tax consequences that may be relevant to a U.S. Holder (as defined below) with respect to the acquisition, ownership and disposition of Ordinary Shares or GDRs. This description addresses only the U.S. federal income tax considerations of holders that are initial purchasers of the Ordinary Shares or GDRs pursuant to the Offering and that will hold the Ordinary Shares or GDRs as capital assets. This description is for general information only, and does not purport to be a comprehensive description of all tax consequences of the acquisition, ownership and disposition of Ordinary Shares or GDRs nor does it purport to address all aspects of U.S. federal income taxation that may be important to a particular investor in light of such investor's investment or tax circumstances, or to holders of the Ordinary Shares or GDRs that may be subject to special tax rules, such as:

- dealers or traders in securities or currencies;
- tax-exempt entities;
- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- persons that received the Ordinary Shares or GDRs as compensation for the performance of services;
- holders who own, or are deemed to own, at least 10%, by voting power or value, of the Company's Ordinary Shares;
- persons that have a functional currency other than the U.S. dollar;
- holders who hold the Company's Ordinary Shares or GDRs as part of a position in a straddle or as part of a hedging, conversion or other risk reduction transaction for U.S. federal income tax purposes; or
- certain former citizens or long-term residents of the United States.

Moreover, this description does not address the U.S. federal estate and gift or alternative minimum tax consequences, or any state, local, or foreign tax consequences relating to the ownership and disposition of the Ordinary Shares or GDRs.

This description is based:

- on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed United States Treasury Regulations promulgated thereunder, and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Prospectus; and
- in part, on the representations of the Depositary and the assumption that each obligation in the Deposit Agreements and any related agreement will be performed in accordance with its terms.

The United States tax laws and the interpretation thereof are subject to change. These changes could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a U.S. Holder is a beneficial owner of the Ordinary Shares or GDRs that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation or other entity treated as a corporation for federal income tax purposes, created or organised in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

A "Non-U.S. Holder" is a beneficial owner of the Ordinary Shares or GDRs that is not a partnership and is not a U.S. Holder. For the U.S. tax consequences to a holder that is a Non-U.S. Holder, see the discussion below under "—Non-U.S. Holders".

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Company's Ordinary Shares or GDRs, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax adviser as to the tax considerations relevant to its particular circumstances.

Prospective holders should consult their own tax advisers with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of the Ordinary Shares or GDRs in light of their particular circumstances.

Ownership of GDRs in General

For United States federal income tax purposes, if you are a holder of GDRs, you generally will be treated as the owner of the Company's Ordinary Shares represented by such GDRs. As a consequence, no gain or loss will be recognised upon the exchange of Ordinary Shares for GDRs or the exchange of GDRs for Ordinary Shares.

Distributions

Subject to the discussion below under "—Passive Foreign Investment Company Considerations", the entire amount of any distribution paid with respect to the Ordinary Shares or GDRs, other than any distributions of the Company's Ordinary Shares or GDRs made to all the Company's shareholders, will constitute dividends to the extent of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles, and generally will be taxed as ordinary income at the time of the receipt of such amounts by the U.S. Holder.

If any non-U.S. taxes are withheld in respect of a payment of dividends, a U.S. Holder would be required to include in income any such tax withheld, notwithstanding that such withheld tax is not in fact received by such U.S. Holder. Dividends will be foreign-source income for U.S. foreign tax credit purposes and will not be eligible for the dividends-received deduction available to domestic corporations. A U.S. Holder may be eligible to claim a U.S. foreign tax credit with respect to non-U.S. income taxes paid in respect of the dividend, but (i) only to the extent of the amount of such tax that is not reasonably certain to be refunded to such holder and (ii) only up to an amount that is not in excess of such U.S. holder's U.S. income tax liability that would otherwise be imposed on the receipt of the dividend. Alternatively, a U.S. Holder may be entitled to claim a deduction for non-U.S. income taxes paid, but only for a year for which such U.S. Holder does not elect to claim foreign tax credits with respect to any foreign income taxes. The rules relating to U.S. foreign tax credits and the timing thereof are extremely complex. Accordingly, U.S. Holders should consult their tax advisers with regard to the availability of a U.S. foreign tax credit and the application of the U.S. foreign tax credit limitations to their particular situations.

To the extent amounts paid as distributions on Ordinary Shares or GDRs exceed the Company's current and accumulated earnings and profits, these amounts will not be dividends, but instead will be treated first as a tax-free reduction of capital to the extent of the U.S. Holder's basis in the Ordinary Shares or GDRs, and thereafter as capital gain. The Company does not intend to compute (or to provide U.S. Holders with the information necessary to compute) earnings and profits under U.S. federal income tax principles. Accordingly, U.S. Holders should expect to treat distributions as dividends.

The amount of the distribution that is subject to U.S. federal income taxation will not be reduced by the amount of any Russian tax withheld from the distribution. For taxable years beginning on or before 31 December 2010, certain non-corporate U.S. Holders may be taxed on dividends from certain foreign corporations at the lower rates applicable to long-term capital gains (i.e., gains with respect to capital assets held for more than one year) if the dividends are "qualified dividends". Dividends received in respect of the Ordinary Shares or GDRs will be qualified dividends if the Company:

- is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and
- was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC").

However, a U.S. Holder's eligibility for such preferential rate would be subject to certain holding period requirements and the non-existence of certain risk reduction transactions with respect to the Ordinary Shares or GDRs. The U.S.-Russia Tax Treaty has been approved for the purposes of the qualified dividend rules, and the Company expects that it generally will be eligible for the benefits of that treaty. Additionally, the Company believes that it was not a PFIC for U.S. federal income tax purposes in respect of its 2006 taxable year and the Company does not anticipate becoming a PFIC in respect of its 2007 tax year or in the foreseeable future, although it can make no assurances in this regard. See "—Passive Foreign Investment Company Considerations".

Dividends paid in Russian roubles will be included in the gross income of a U.S. Holder in a U.S. dollar amount calculated by reference to the prevailing spot market exchange rate in effect on the date that the dividends are received by the U.S. Holder (in the case of Ordinary Shares) or by the Depositary (in the case of GDRs), regardless of whether such rubles are in fact converted into U.S. dollars on such date. If such dividends are converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognise foreign currency gain or loss in respect thereof. Such a holder will have a tax basis for U.S. federal income tax purposes in the Russian roubles received equal to that dollar value. U.S. Holders should consult their own tax advisers regarding the treatment of foreign currency gain or loss, if any, on (i) any roubles received by a U.S. Holder or by the Depositary that are converted into U.S. dollars on a date subsequent to receipt, or (ii) any refund received under the United States-Russia double tax treaty.

Russian tax withheld from dividends generally will be treated (up to the 5% or 10% rate, as applicable, provided under the U.S.-Russia Tax Treaty) as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against the U.S. federal income tax liability of U.S. Holders or, if they have elected to deduct such taxes, may be deducted in computing taxable income; provided, in each case, that the amounts withheld and paid to the Russian tax authorities are treated as satisfying a U.S. holder's tax liability for purposes of the U.S. foreign tax credit rules. If Russian tax is withheld at a rate in excess of the applicable rate under the U.S.-Russian Tax Treaty, a U.S. Holder may not be entitled to credits for the excess amount because such amounts might be treated as recoverable by the U.S. Holder for U.S. federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. See "—Russian Tax Considerations—Taxation of Non-Resident Holders—Taxation of Dividends". New foreign tax credit regulations have been recently proposed by the U.S. Department of the Treasury and the IRS, and it is uncertain whether, if adopted in final form, they could affect U.S. Holders' ability to credit Russian tax withheld from dividends against their U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that the Company pays generally will constitute "passive category income", or in the case of certain U.S. Holders, "general category income".

Sale or Exchange of the Company's Ordinary Shares or GDRs

Subject to the discussion below under "—Passive Foreign Investment Company Considerations", U.S. Holders will recognise capital gain or loss for U.S. federal income tax purposes as a consequence of a sale or exchange of the Company's Ordinary Shares or GDRs. The amount of gain or loss will be equal to the difference between the taxpayer's adjusted tax basis in the Ordinary Shares or GDRs and the amount realised on their disposition. Noncorporate U.S. Holders will be eligible for preferential capital gains rates if the Ordinary Shares or GDRs are held in excess of one year. The deductibility of capital losses is subject to limitations. If a Russian tax is withheld on the sale, exchange or other disposition of an Ordinary Share, the amount realised by a U.S. Holder will include the gross amount of the proceeds of that sale, exchange or other disposition before deduction of the Russian tax. Capital gain or loss, if any, realised by a U.S. Holder on the sale, exchange or other taxable disposition of Ordinary Shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, a U.S. Holder may not be able to credit any Russian withholding tax imposed upon a disposition of Ordinary Shares unless the U.S. Holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit rules. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own tax advisors regarding the availability of foreign tax credits with respect to any Russian taxes withheld from payment.

The initial tax basis of the Ordinary Shares or GDRs to a U.S. Holder is the U.S. dollar value of the Russian rouble-denominated purchase price determined on the date of purchase. If the Company's Ordinary Shares or GDRs are treated as traded on an "established securities market", a cash basis U.S. Holder, or, if it elects, an accrual basis U.S. Holder, will determine the dollar value of the cost of such Ordinary Shares or GDRs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The conversion of U.S. dollars to Russian roubles and the immediate use of that currency to purchase the Ordinary Shares or GDRs generally will not result in taxable gain or loss for a U.S. Holder.

With respect to the sale or exchange of the Ordinary Shares or GDRs, the amount realised generally will be the U.S. dollar value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis U.S. Holder and (2) the date of disposition in the case of an accrual basis U.S. Holder. If the Company's Ordinary Shares or GDRs are treated as traded on an "established securities market", a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Passive Foreign Investment Company Considerations

A Non-U.S. corporation will be classified as a "passive foreign investment company", or a "PFIC", for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75% of its gross income is "passive income" or (2) at least 50% of the average value of its gross assets is attributable to assets that produce "passive income" or that are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

The Company believes that it was not a PFIC for its taxable year ending 31 December 2006. The Company's status in future years will depend on its assets and activities in those years. The Company has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC for the current taxable year or for any future year, but there can be no assurance that the Company will not be considered a PFIC for any taxable year.

If the Company were a PFIC, a U.S. Holder of the Ordinary Shares or GDRs generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, the Ordinary Shares or GDRs. Although a U.S. Holder of the Ordinary Shares or GDRs could make one of several elections that may alleviate certain of the tax consequences referred to above, it is expected that the conditions necessary for making certain of such elections will not be satisfied in the case of the Ordinary Shares or GDRs. U.S. Holders should consult their own tax advisors regarding the tax consequences that would arise if the Company were treated as a PFIC.

Non-U.S. Holders

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received on Ordinary Shares or GDRs, unless such income is effectively connected with the conduct by the Non-U.S. Holder of a U.S. trade or business. A Non-U.S. Holder of Ordinary Shares or GDRs also generally will not be subject to U.S. federal income or withholding tax on gain realised upon the disposition of Ordinary Shares or GDRs, unless (i) such gain is effectively connected with the conduct by the Non-U.S. Holder of a U.S. trade or business, or (ii) in the case of gain realised by an individual Non-U.S. Holder, such individual is present in the United States for at least 183 days in the taxable year of the sale (and certain other conditions are satisfied). Each potential investor that would be a Non-U.S. Holder should consult its own tax adviser regarding the U.S. tax consequences of the ownership and disposition of Ordinary Shares or GDRs.

Dividends or gain that is effectively connected with the conduct by a Non-U.S. Holder of a trade or business in the United States generally will be subject to regular U.S. federal income tax in the same manner as if it were realised by a U.S. Holder. In addition, if such Non-U.S. Holder is a Non-U.S. corporation, such dividends or gain may be subject to a branch profits tax at a rate of 30% (or such lower rate as provided by an applicable income tax treaty).

Information Reporting and Backup Withholding

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of Ordinary Shares or GDRs. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, the Company's Ordinary Shares or GDRs made within the United States or by a U.S. payor or U.S. middleman to a holder of the Company's Ordinary Shares or GDRs, other than an exempt recipient (such as a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). Backup withholding tax will apply to any payments of dividends on, or the proceeds from the sale or redemption of, Ordinary Shares or GDRs within the United States or by a U.S. payor or U.S. middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% through 2010.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Company's Ordinary Shares or GDRs. Prospective investors should consult their own tax advisors concerning the tax considerations relevant to their particular situation.

United Kingdom tax considerations

The comments below are of a general nature and are based on current United Kingdom law and published HM Revenue and Customs practice at the date of this Prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the United Kingdom and Russia (which the Company refers to as the "United Kingdom/Russia double tax treaty"), each of which is subject to change, possibly with retrospective effect. The summary covers the principal tax consequences of holding GDRs or Ordinary Shares for holders who (1) are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the United Kingdom for tax purposes and not resident for tax purposes in any other jurisdiction; and (2) do not have a permanent establishment or fixed base in Russia with which the holding of GDRs or Ordinary Shares is connected (which the Company refers to as "United Kingdom Holders"). In addition, the summary:

(1) only addresses the principal tax consequences for United Kingdom Holders who hold the GDRs or Ordinary Shares as capital assets and does not address the tax consequences which may be relevant to certain other categories of United Kingdom Holders (such as, for example, dealers);

(2) does not address the United Kingdom tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes or tax-exempt organisations;

(3) assumes that the United Kingdom Holder is not a company which either directly or indirectly controls 10% or more of the share capital or the voting power or the profits of the Company;

(4) assumes that a holder of GDRs is, for UK tax purposes, beneficially entitled to the underlying Ordinary Shares and to dividends on those Ordinary Shares;

(5) assumes that the United Kingdom Holder does not hold the GDRs or Ordinary Shares on trust;

(6) assumes that the Ordinary Shares will not be held by, and that the GDRs will not be issued by, a depositary incorporated in the United Kingdom;

(7) assumes that the United Kingdom holder does not carry on business in Russia through a permanent establishment or fixed base therein; and

(8) assumes that neither the Ordinary Shares nor the GDRs will be paired with common shares issued by a company incorporated in the United Kingdom.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular United Kingdom Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including the consequences under United Kingdom law and HM Revenue & Customs practice, of acquisition, ownership and disposition of GDRs or Ordinary Shares in their own particular circumstances, by consulting their own tax advisers.

Dividends

A dividend paid by the Company may, depending on the circumstances of the person entitled to it, be subject to Russian withholding tax. Relief at source from, or a refund of, such withholding tax may be available under the United Kingdom/Russia double tax treaty. See "—Russian Tax Considerations". Any remaining Russian withholding tax is generally allowed as a credit against the U.K. tax liability of a United Kingdom Holder, but any excess of such Russian withholding tax over the U.K. tax payable on the aggregate amount of the dividend and the Russian withholding tax (as described below) is generally not refundable.

A United Kingdom Holder or a holder which carries on a trade, profession or vocation in the United Kingdom through a branch or agency, or a permanent establishment, in connection with which the GDRs or Ordinary Shares are held will generally be subject to United Kingdom income tax or corporation tax, as the case may be, on the gross amount (before deduction of any applicable withholding tax) of any dividend paid by the Company. As described above, credit for Russian withholding tax in excess of the amount for which relief is available under the United Kingdom/Russia double tax treaty should generally be given against any United Kingdom tax liability in respect of the dividend.

Persons in the United Kingdom paying "foreign dividends" to or receiving "foreign dividends" on behalf of another person may be required to provide certain information to HM Revenue and Customs regarding the identity of the payee or the person entitled to the "foreign dividend" and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the GDRs or Ordinary Shares may constitute "foreign dividends" for this purpose.

Capital Gains

A disposal or deemed disposal of Ordinary Shares or GDRs by a United Kingdom Holder or, in certain circumstances, by a holder who carries on a trade, profession or vocation in the United Kingdom through a branch or agency or a permanent establishment in connection with which the Ordinary Shares or GDRs are held, may give rise to a chargeable gain or allowable loss for the purposes of United Kingdom taxation of chargeable gains, depending on the United Kingdom Holder's circumstances and subject to any available exemption or relief. In the case of a United Kingdom Holder which is a company, an indexation allowance can be used to reduce or eliminate a chargeable gain to the extent it arises due to inflation but not to create or increase an allowable loss. In the case of a United Kingdom Holder who is an individual, taper relief (if available) can be used to reduce a chargeable gain. A United Kingdom Holder who is an individual is entitled to an annual exemption from United Kingdom tax on chargeable gains, currently of up to £8,800.

A United Kingdom holder who is an individual and who has ceased to be resident or ordinarily resident for tax purposes in the U.K. for a period of less than five years and who has become resident in a territory outside the U.K. for the purposes of double taxation relief arrangements, and who disposes of the Ordinary Shares or GDRs during that period, may be liable on his or her return to the U.K. to tax on any chargeable gain realised. Nothing in any double taxation relief arrangement shall prevent such individual from being subject to capital gains tax in the U.K. in such circumstances. It should be noted that the U.K. Finance (No. 2) Act 2005 contains provisions to deal with individuals who are resident or ordinarily resident in the U.K. but fall to be regarded as resident in a territory outside the U.K. for the purposes of double taxation relief arrangements.

A credit for any tax payable in Russia by a holder in respect of a disposal may be available against any liability for United Kingdom tax on chargeable gains. See "Russian Tax Considerations".

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty reserve tax will be payable on the issue of the Ordinary Shares or GDRs or on an agreement to transfer the Ordinary Shares or GDRs provided that the Ordinary Shares are not registered in a register kept in the United Kingdom by the Company or on its behalf.

No United Kingdom stamp duty will be payable on the issue of the Ordinary Shares or GDRs. No United Kingdom stamp duty will be payable on a transfer of Ordinary Shares or GDRs if such transfer is not effected by a written instrument of transfer. If a transfer is effected by a written instrument, United Kingdom stamp duty will be payable if such written instrument (a) is required for any official purpose in the United Kingdom and (b) is executed in the United Kingdom or relates to property situated in or any other matter or thing done or to be done in the United Kingdom. The rate of stamp duty on a transfer is generally 0.5% of the transfer consideration. The rate is increased to 1.5% of the transfer consideration, or in certain circumstances, the value of the securities, on transfers to a clearance service or an issuer of depositary receipts.

Inheritance tax

United Kingdom inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, Ordinary Shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Non-Resident Holders of the GDRs and Ordinary Shares and to Russian Resident Holders of Ordinary Shares and GDRs and to the purchase, ownership and disposition of GDRs and Ordinary Shares by their Non-Resident Holders and of Ordinary Shares and GDRs by their Russian Resident Holders. The summary is based on the laws of Russia in effect on the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. The summary also does not seek to address the availability of double tax treaty relief; and even where such relief is available there may be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Ordinary Shares and GDRs, and no representation with respect to the Russian tax consequences to any particular holder is made hereby.

Russian tax law and procedures are not well developed, and local tax inspectors have considerable autonomy in tax law interpretation and often interpret tax rules inconsistently. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets. For example, from 1 January 2006, a number of amendments were introduced to the Profits Tax Chapter of the Tax Code of the Russian Federation with respect to securities and other financial instruments. There is little practical experience with respect to the application of these changes and there are only a few official clarifications. The interpretation and application of tax law provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a "Non-Resident Holder" means:

- a physical person, actually present in the Russian Federation for an aggregate period of less than 183 days in any period consisting of 12 consecutive months, or a "Non-Resident Holder Individual". Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education, or

- a legal person or organisation, in either case not organised under Russian law, that holds and disposes of the Ordinary Shares or the GDRs otherwise than through a permanent establishment in Russia, or a "Non-Resident Holder-Legal Entity".

For the purposes of this summary, a "Russian Resident Holder" means:

- a physical person, who holds the Ordinary Shares or the GDRs and is present in Russia for an aggregate period of 183 days or more (excluding days of arrival into Russia, but including days of departure from Russia) in any period comprised of 12 consecutive months; or
- a legal person organised under Russian law who holds the Ordinary Shares or GDRs; or
- a legal person or organisation, in either case organised under a foreign law, which holds and disposes of Ordinary Shares or GDRs through its permanent establishment in Russia.

The residency rules may be affected by an applicable double tax treaty.

For the purposes of this summary, a "Tax Agent" means (i) a legal person organised under Russian law or (ii) a legal person or organisation organised under a foreign law and paying out income attributable to a permanent establishment or, arguably, any other registered presence in the Russian Federation, which pays out dividend or capital gains income on the Ordinary Shares or GDRs to Non-Resident Holders.

Taxation of Non-Resident Holders

Taxation of Dividends

Dividends paid to a Non-Resident Holder will generally be subject to Russian withholding income tax, which will be withheld by the Company acting as a Tax Agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity, or an individual. Dividends paid to a Non-Resident Holder-Legal Entity should generally be subject to Russian withholding income tax at a rate of 15%. Dividends paid to a Non-Resident Holder-Individual should be subject to withholding of Russian income tax at a rate of 30%.

Withholding income tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax residency of the Non-Resident Holders subject to tax treaty clearance requirements being met, as described below in "—Tax Treaty Procedures".

For example, the Convention Between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income and Capital (the "United States-Russia Tax Treaty") provides for reduced withholding rates on dividends paid to a Non-Resident Holder who qualifies as a U.S. tax resident entitled to benefits under this treaty and who is the beneficial owner of the dividends, or a "U.S. Holder". Under this treaty, a 5% rate applies to dividends paid to U.S. Holders that are companies that own 10% or more of the Company's outstanding shares, and a 10% rate applies to dividends paid to other U.S. Holders. The Convention Between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, (the "United Kingdom-Russia Tax Treaty"), also provides for a 10% withholding income tax rate on dividends paid to a Non-Resident Holder who qualifies as a U.K. tax resident entitled to benefits under this treaty and who is the beneficial owner of the dividends and is subject to taxation in respect of these dividends in the United Kingdom, or a "U.K. Holder".

Notwithstanding the foregoing, treaty relief may be unavailable to Non-Resident Holders on dividends received on GDRs. In particular, in the absence of any specific provisions in Russian tax legislation with respect to the concept of beneficial ownership, and because of the fact that the Depositary is the legal owner of the Ordinary Shares under Russian law, it is unclear how the tax authorities and courts will ultimately treat the GDR holders in this regard. In 2005 and again in 2006 the RF Ministry of Finance issued a number of private clarifications stating that American depositary receipt ("ADR") holders should be treated as the beneficial owners of the underlying shares for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residencies of the ADR holders are duly confirmed. Under Russian law, GDRs are likely to be treated similarly to ADRs. Nevertheless, in the absence of any official interpretative guidance on the above concepts, the Company will likely withhold tax at higher rates when paying dividends on the Ordinary Shares represented by GDRs. Although non-resident holders of GDRs may apply for a refund of a portion of the withholding tax under an applicable double tax treaty, the Company cannot assure you that the Russian tax authorities will grant a refund. See "—Tax Treaty Procedures".

Taxation of Capital Gains

Legal entities and organisations

Under Russian tax legislation, gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs that are circulated (i.e. listed and traded) on foreign stock exchanges by Non-Resident Holders that are legal entities or organisations, otherwise than through their permanent establishment in Russia, fall outside the scope of Russian taxes. Therefore, so long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from the sale, exchange or other disposition of GDRs on the London Stock Exchange by non-resident legal entities or organisations that have no permanent establishment in Russia to which such sale, exchange or disposition could be connected, should not be subject to Russian withholding income tax and, hence, to taxation in Russia.

The remainder of this sub-section applies only to the Ordinary Shares and to GDRs that are not circulated (i.e., listed and traded) on foreign stock exchanges.

Capital gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs by Non-Resident Holders-Legal Entities should not be subject to tax in Russia if the Company's immovable property located in Russia constitutes 50% or less of its assets. The Company believes that its immovable property located in Russia does not currently, and will not, constitute more than 50% of its assets. However, because the determination of whether 50% or less of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia does not currently, or will not in the future constitute more than 50% of the Company's assets. If more than 50% of the Company's assets were to consist of immovable property located in Russia, a Non-Resident Holder-Legal Entity may be subject to:

- a 24% withholding tax rate on capital gains realised from the sale, being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the Ordinary Shares or GDRs; or
- a 20% withholding tax rate on the gross proceeds from the sale of the Ordinary Shares or GDRs.

Some tax treaties entered into by the Russian Federation provide for elimination of taxation of capital gains in Russia for Non-Resident Holder-Legal Entities qualifying for the relevant treaty benefits.

Under the United States-Russia Tax Treaty, capital gains from the sale of Ordinary Shares or GDRs by U.S. Holders should be exempt from taxation in Russia, unless 50% or more of the fixed assets of the Company were to consist of immovable property located in Russia.

Since relief from capital gains taxation in Russia provided by the United States-Russia Tax Treaty referred to above, is no more beneficial for a U.S. Holder (legal entity or organisation) than the treatment provided by the current Russian domestic tax legislation, it is unlikely that the need will arise for such Non-Resident Holders-Legal Entities to seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the Ordinary Shares or GDRs.

Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares by U.K. Holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

There is a risk that the Tax Agents which are obligated to withhold tax on capital gains may not have sufficient information regarding the Company's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the Non-Resident Holders—Legal Entities selling the Ordinary Shares or GDRs. If there is an applicable double tax treaty, Non-Resident Holders—Legal Entities may apply for a refund of a portion of the withholding tax, but there is no assurance that such refund will be obtained. See "—Tax Treaty Procedures".

Where the Ordinary Shares or GDRs are sold by a Non-Resident Holder-Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia) even if the resulting capital gain is considered taxable Russian source income, there is currently no mechanism under which the relevant tax could be withheld and remitted to the Russian tax authorities.

Individuals

According to Russian tax legislation, taxation of capital gains realised on a sale, exchange or other disposition of Ordinary Shares or GDRs by Non-Resident Holder-Individuals will depend on whether this income is considered as received from Russian or non-Russian sources. However, in the absence of a clear definition of what constitutes income from sources within Russia in the case of the sale of securities, there is a risk that income from the disposal of Russian securities (Ordinary Shares) may be considered as received from Russian sources.

If the sale, exchange or other disposition of the Ordinary Shares or GDRs by a Non-Resident Holder-Individual is considered Russian source income, a tax will be imposed in an amount equal to 30% of the sales price less the acquisition cost of the Ordinary Shares and other documented expenses, such as depositary expenses and broker fees, among others. However, the acquisition cost and related expenses can only be deducted from the sale price at the source of payment if the sale is made by a Non-Resident Holder-Individual through a licensed Russian broker. If the sale, exchange or other disposition is made through a Tax Agent, the Tax Agent will be required to withhold the applicable tax and to report to the Russian tax authorities the income realised by the Non-Resident Holder-Individual and the tax withheld upon the sale, exchange or other disposition of the Ordinary Shares or GDRs. Where the sale, exchange or other disposition of the Ordinary Shares or GDRs is made in Russia but not through a Tax Agent, generally no tax withholding needs to be made and the Non-Resident Holder-Individual will have an obligation to file a tax return with the Russian tax authorities. The purchaser will be required to report to the Russian tax authorities the income realised by the Non-Resident Holder-Individual upon the sale of the Ordinary Shares and GDRs by 1 April of the year following the reporting period.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for Non-Resident Holder-Individuals qualifying for the relevant treaty benefits.

U.S. or U.K. Non-Resident Holder-Individuals whose income from the sale, exchange or other disposition of the Ordinary Shares or GDRs is taxed at source by withholding at a 30% rate may technically claim a refund of the tax withheld under the relevant treaty provisions. However, in practice these procedures are very time-consuming and more complicated than those for corporate holders, and a successful outcome for individuals is less likely. Under the United States-Russia Tax Treaty, capital gains from the sale of Ordinary Shares or GDRs by U.S. Holders should be exempt from taxation in Russia, unless 50% or more of the fixed assets of the Company were to consist of immovable property located in Russia. With respect to an individual U.S. Holder the treatment provided by the United States-Russia Tax Treaty may be more beneficial in cases where the immovable property does not make up 50% or more of the Company's fixed assets. Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares by U.K. Holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

With respect to a U.K. Holder (individual), the treatment provided by the United Kingdom-Russia Tax Treaty may therefore be more beneficial than the treatment under domestic Russian tax law in circumstances where gains are derived from the disposition of the Company's Ordinary Shares or GDRs quoted on an approved stock exchange or in cases where the Company's shares are not quoted on any approved stock exchange but do not derive their value or greater part of their value directly or indirectly from immovable property situated in Russia.

In order to apply the treaties, the Non-Resident Holder-Individual must receive clearance from the Russian tax authorities. Advance treaty clearance is not provided for by the current Russian legislation and individuals wishing to make a treaty claim would be required to submit a tax return to the tax authorities as described below in "—Tax Treaty Procedures" to claim the refund of tax.

Tax Treaty Procedures

The Profits Tax Chapter of the Tax Code, which became effective on 1 January 2002, eliminates the requirement that a Non-Resident Holder that is a legal entity must obtain tax treaty clearance from the

Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty.

A Non-Resident Holder-Legal Entity seeking to obtain relief from or reduction of Russian withholding income tax under a tax treaty must provide the Tax Agent with a confirmation of its tax residency for the purposes of the applicable double tax treaty, legalised or apostilled with a notarised Russian translation attached to it. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income before the first payment of income in each calendar year.

In accordance with the Russian Tax Code, a Non-Resident Holder-Individual must present to the tax authorities a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a confirmation of the income received and the tax paid in such foreign jurisdiction, as confirmed by the relevant foreign tax authorities. Technically, such requirements mean that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. For example, a U.S. Holder may obtain the appropriate certification by mailing completed Form 8802, Application for United States Residency Certification, together with any additional information required to: Internal Revenue Service, P.O. Box 42530, Philadelphia, PA 19101-2530. Obtaining the required certification from the Internal Revenue Service may take six to eight weeks. If the U.S. Non-Resident Holder is eligible for certification, it will receive a Form 6166, Certification of United States Residency, upon filing a completed Form 8802 with the Internal Revenue Service.

A U.K. Non-Resident Holder may obtain the appropriate certification from his/her local Inspector of Taxes. As obtaining this certification may take some time, a U.K. Non-Resident Holder should apply for such certification in advance.

For individuals, advance relief from or reduction of withholding income taxes will generally be impossible to obtain as it is unlikely that the supporting documentation for the treaty relief will be provided to the Russian tax authorities and approval from the latter obtained before the receipt of dividends or sales proceeds occurs.

If a Non-Resident Holder does not obtain double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian payer, the Non-Resident Holder may apply for a refund within three years from the end of the year in which the tax was withheld, if the recipient is a legal entity or organisation, or within one year from the end of the tax year in which the tax was withheld, if the recipient is an individual. To process a claim for a refund, the Russian tax authorities require: (1) an apostilled or legalised confirmation of the foreign tax residency of the Non-Resident Holder at the time the income was paid, as required by an applicable tax treaty; (2) an application for a refund of the tax withheld; and (3) copies of the relevant contracts or other documents based on which the income was paid, as well as payment documents confirming the payment of the tax that was withheld to the appropriate Russian authorities. (Form 1012DT for dividends and interest and 101 1DT for other income are intended to combine (1) and (2) for foreign legal entities and organisations; individuals are also required to submit a document issued or approved by the tax authorities in the country in which they are residents for tax purposes, confirming the amount of income received and taxed in that country). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month following the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, in practice, the procedures for processing such tax refund claims have not been clearly established and there is significant practical uncertainty regarding the availability and timing of such refunds.

The procedures described above may be more complicated with respect to GDRs due to the separation of legal and beneficial ownership of the Russian shares underlying the GDRs. Russian tax legislation does not provide clear guidance regarding availability of double tax treaty relief for GDR holders. See "—Taxation of Russian Resident Holders—Taxation of dividends". Thus, the Company cannot assure potential investors that exemption from or a reduction in tax will be available under any applicable tax treaties in respect of Russian taxes payable or withheld in respect of dividends on Ordinary Shares represented by GDRs. See "Risk Factors—Risks Relating to the Offering, Ordinary Shares and GDRs".

Taxation of Russian Resident Holders

Taxation of dividends

Ordinary Shares

Dividends paid to a holder of the Ordinary Shares that is a Russian legal entity or who is an individual will be subject to Russian withholding tax at the rate of 9%.

The Russian Tax Code does not clearly state which rate of withholding tax should apply to dividends payable to a holder of Ordinary Shares that is a permanent establishment of a foreign legal entity (or organisation). According to the recommendations issued by the Russian tax authorities, withholding tax at the rate of 9% should apply to dividends paid to a Russian permanent establishment of a foreign legal entity (or organisation), provided that there is a double tax treaty between Russia and the country of tax residency of the relevant foreign legal entity and that treaty contains non-discrimination provisions. Otherwise, a 15% tax rate should apply. However, as application of the reduced tax rate is not specifically provided in the Russian Tax Code, no assurance can be given that application of a 9% tax rate on dividends paid to residents of the treaty jurisdictions would not be challenged by the Russian tax authorities.

GDRs

There are uncertainties in relation to withholding tax on dividends payable to Russian Resident Holders of GDRs. In the absence of any interpretative guidance on the beneficial ownership concept in Russia and due to the fact that the Depositary (and not the holders of the GDRs) is the legal holder of the shares under Russian law, the Company will likely withhold tax at applicable domestic rates on dividends payable to Russian Resident Holders (as described above). There is also no established procedure for the refund of tax withheld from dividends payable through the Depositary to Russian Resident Holders of GDRs.

In view of the foregoing, the Company urges Russian residents to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

Taxation of capital gains

Legal entities and organisations

Capital gains arising from the sale, exchange or other disposition of Ordinary Shares or GDRs by any non-individual Russian Resident Holder will be taxable at the regular Russian tax rate of 24%. Russian tax legislation contains a requirement that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profit from operations with securities that are not quoted on a stock exchange and from operating profit. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of the Ordinary Shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer licence.

Individuals

Capital gains arising from the sale, exchange or other disposition of Ordinary Shares or GDRs by individuals who are Russian Resident Holders must be declared on the holder's annual tax declaration and are subject to personal income tax at a rate of 13%.

The tax base in respect of the sale of the securities by an individual is calculated as the sale proceeds less documentary confirmed expenses related to the purchase of such securities (including the cost of such securities and expenses associated with purchase, holding and sale of such securities).

As the Russian legislation related to taxation of income derived by Russian resident holders (both legal entities or organisations, and individuals) from the sale, exchange or other disposition of GDRs is not entirely clear, the Company urges Russian residents to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

SUBSCRIPTION AND SALE

The Offering consists of an offering of 78,000,000 Ordinary Shares in the form of Ordinary Shares and GDRs. All of the Ordinary Shares in the Offering will be offered through a Russian licensed broker, of which no more than 70% will be offered in the form of GDRs. The GDRs will be offered to QIBs in the United States under Rule 144A and to institutional investors outside the United States and Russia under Regulation S, and Ordinary Shares will be offered to QIBs in the United States under Rule 144A and to institutional investors outside the United States and Russia and to investors in Russia under Regulation S.

On 23 January 2007, the Company and the Selling Shareholder entered into an Agreement with BlackRock Investment Management (UK) Limited pursuant to which BlackRock Investment Management (UK) Limited has agreed to purchase Ordinary Shares (including Ordinary Shares in the form of GDRs in the ratio of 60:40 (Ordinary Shares : GDRs)) in the Offering at the Offer Price for aggregate consideration of $100 million. The Ordinary Shares (including Ordinary Shares in the form of GDRs) will be allocated on the same terms and conditions as the Ordinary Shares and GDRs being sold in the Offering and will form a single class for all purposes with the other Ordinary Shares and GDRs, respectively.

Under the terms of, and subject to, the conditions contained in an Underwriting Agreement dated 7 February 2007 (the "Underwriting Agreement") entered into among the Company, the Selling Shareholder and the Joint Global Coordinators, the Joint Global Coordinators named below have severally agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer Price, the number of Ordinary Shares (including a portion in the form of GDRs) indicated below. The Company and Selling Shareholder have agreed to make available, at the Offer Price, to the Joint Global Coordinators, the number of Ordinary Shares (including a portion in the form of GDRs) indicated below:

Name	Ordinary Shares
Deutsche Bank AG, London Branch	31,200,000
Merrill Lynch International	11,700,000
UBS Limited	31,200,000
Royal Bank of Canada Europe Limited	3,900,000
Total	78,000,000

The Underwriting Agreement contains, among others, the following provisions:

- The Selling Shareholder has granted to the Managers an Over-allotment Option to acquire up to 10,000,000 additional Ordinary Shares in the form of GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable upon written notice to the Selling Shareholder from the Stabilising Manager on behalf of the Managers, at any time during the Stabilisation Period. If the Joint Global Coordinators exercise this option, the Selling Shareholder will be obligated to sell, and each Manager will be severally obligated, subject to the conditions contained in the Underwriting Agreement, to purchase or procure purchasers for, a number of additional Shares in the form of GDRs proportionate to that Manager's initial amount reflected in the table above.
- The Managers will deduct from the proceeds of the Offering:
  (i) certain costs and expenses incurred by the Managers in connection with the Offering; and
  (ii) certain selling, management and underwriting commissions of 2.25% of the aggregate offering price of the Securities and, at the discretion of the Company and the Selling Shareholder, an incentive fee of up to 0.75% of the aggregate offering price of the Securities. Assuming payment of the full incentive fee, such commissions will equal a total of approximately U.S.$18.1 with respect to the number of firm Ordinary Shares sold in the form of Ordinary Shares and GDRs indicated in the table above and a total of approximately U.S.$2.3 with respect to any additional Ordinary Shares in the form of GDRs acquired by the Managers assuming full exercise of the Over-Allotment Option.
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the Underwriting Agreement and the application for Admission having been approved on or prior to the GDR Closing Date. The Managers may terminate

the Underwriting Agreement prior to the GDR Closing Date in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the Group's condition (financial or otherwise), prospects, results or operations or properties, as well as certain changes in financial, political, economic or market conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, the GDR Closing Date, then the Offering will lapse.

- The Company has given certain representations and warranties to the Managers including in relation to the Group's business, the Group's accounting records and the Group's legal compliance, in relation to Ordinary Shares and GDRs and in relation to the contents of this Prospectus. The Selling Shareholder has also given certain representations and warranties to the Managers, including in relation to its capacity, its good title to the Ordinary Shares and GDRs and its conduct.
- The Company and the Selling Shareholder have given certain indemnities to the Managers in connection with the Offering.
- If a Manager defaults, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Managers may be increased or the Underwriting Agreement may be terminated.
- The Company and the Selling Shareholder have agreed, as part of the Underwriting Agreement and subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in the Company or securities convertible or exchangeable into or exercisable for any shares in the Company or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, for a period of 180 days from the later of the Ordinary Share Closing Date or the last exercise of the Over-Allotment Option, without the prior written consent of the Managers.

  In addition to certain customary exemptions from the lock-up provisions, certain other exemptions include (i) issues of shares by the Company or issue of depositary receipts representing such shares, if and to the extent such shares or depositary receipts are used for acquisitions, in the aggregate amount of up to 10% of the issued and outstanding share capital of the Company immediately following the GDR Closing Date, provided, however, that each purchaser agrees in writing not to sell such shares or depositary receipts, as applicable, until the expiration of the 180-day lock-up period; and (ii) sale of shares by the Selling Shareholder or sale of depositary receipts representing such shares, if and to the extent such shares or depositary receipts are used for acquisitions, in the aggregate amount of up to 10% of the issued and outstanding share capital of the Company immediately following the GDR Closing Date, provided, however, that each purchaser agrees in writing not to sell such shares or depositary receipts, as applicable, until the expiration of the 180-day lock-up period.

In connection with the Offering, the Stabilising Manager or any person acting for it, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the final price of the GDRs is made and ending on the date that is 30 calendar days thereafter. There is no assurance that the Stabilising Manager (or any person acting for it) will undertake stabilising action. Save as required by law, the Stabilising Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

The Managers will be soliciting non-binding indications of interest in acquiring the Ordinary Shares and the GDRs under the Offering from prospective institutional investors. Prospective institutional investors will be required to specify the number of Ordinary Shares and/or Ordinary Shares in the form of GDRs which they would be prepared to acquire at the Offer Price (subject to it being determined). This process is known as book-building.

Ordinary Shares and GDRs allocated under the Offering will, following determination of the Offer Price, be fully underwritten by the Managers as described in this section, "Subscription and Sale". Allocations will be determined at the sole discretion of the Managers after non-binding indications of interest from prospective institutional investors have been received in the book-building process.

The Offer Price will be determined by the Managers with the agreement of the Company and the Selling Shareholder. The results of the Offering will be made public by the Company through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering. A number of factors will be considered in deciding the Offer Price and the bases of allocation under the Offering, including the level and the nature of the demand for the Ordinary Shares and the GDRs and the objective of encouraging the development of an orderly after-market in the Ordinary Shares and the GDRs. The Managers will establish the Offer Price at a level determined in accordance with these arrangements, taking into account indications of interest received from persons (including market-makers and fund managers) connected with the Managers.

All Ordinary Shares and Ordinary Shares in the form of GDRs issued or sold pursuant to the Offering will be issued or sold at the relevant Offer Price.

Application has been made (i) to the Financial Services Authority for a block listing of up to 315,000,000 GDRs, consisting of up to 66,973,000 GDRs to be issued on or about the GDR Closing Date, up to 10,000,000 additional GDRs to be issued pursuant to the Over-allotment Option, and additional GDRs to be issued from time to time against the deposit of Ordinary Shares with The Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange plc for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the IOB. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. Prior to the GDR Closing Date, there has not been any public market for the GDRs. The Company expects that conditional trading through the IOB will commence on a "when and if issued" basis on or about 7 February 2007, and unconditional trading through the IOB will commence on or about 12 February 2007. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

The Ordinary Shares were listed on the "I" list on the RTS on 15 January 2007 and the Company has applied for admission of Ordinary Shares to trading on MICEX. Prices for Ordinary Shares traded on the RTS and MICEX may not reflect the Offer Price.

Investors wishing to enter into transactions in the GDRs prior to the GDR Closing Date of the Offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of the Offering may not take place on 12 February 2007 or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or do not occur on or prior to such date. All such transactions will be of no effect if the Offering does not become unconditional. In addition, the GDRs are expected to be eligible for trading in PORTAL. However, the Company cannot assure you that an active public or other market will develop in the Ordinary Shares or GDRs or that a liquid trading market will exist for the Ordinary Shares or GDRs. The Company does not intend to list the GDRs or Ordinary Shares on any U.S. national securities exchange or to seek the admission thereof to trading on the Nasdaq Stock Market.

Trading in the GDRs representing Ordinary Shares being offered by the Company on the London Stock Exchange will be subject to cancellation until the Placement Report for the newly issued Ordinary Shares being offered by the Company is registered by the FSFM. Also, following the GDR Closing Date, no additional Ordinary Shares will be accepted for deposit and no additional GDRs will be issued until the Depositary has been notified of the registration of the Placement Report. The Company has undertaken that if the Placement Report is not registered within 60 days after the GDR Closing Date (or such later date as the Company agrees with the Managers), the Company will deliver to the Depositary the net proceeds it receives from the sale of GDRs (in Russian roubles, if so required by Russian law) and the Managers have agreed to return their fees and commissions related to the sale of GDRs representing the Ordinary Shares being offered by the Company to the Depositary. In such event the Depositary will cancel such number of GDRs as corresponds to the number of newly issued Ordinary Shares being cancelled, on a pro rata basis or such other basis as it deems practicable at its sole discretion, and will distribute through DTC, Euroclear and Clearstream, as applicable, the funds it had received, pro rata or on such other basis as it deems practicable in its sole discretion, to the then holders of GDRs, subject to the terms of the Deposit Agreements. The amount per GDR ultimately retuned to the then holders of GDRs may be less than the initial public offering price per GDR, may be subject to withholding taxes, and may be delayed or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring conversion of funds from or into roubles) and may be prevented if there is a change in such regulation or practices. See "Risk Factors—Risks Relating to the Offering, the Ordinary Shares and the GDRs—GDR holders cannot withdraw Ordinary Shares from, nor deposit Ordinary Shares into, the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs, nor can holders of Ordinary Shares deposit Ordinary Shares into the deposit facility, until the FSFM registers the Company's Placement Report, and a failure to register the Placement Report would result in the newly issued Ordinary Shares and the GDRs being cancelled and reliance by GDR holders on the Company and the Managers to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares". If the Placement Report is not registered, and trading in respect of these GDRs on the London Stock Exchange is cancelled and the Depositary cancels the GDRs as described herein, the liquidity of the remaining GDRs will be significantly impaired.

Some of the Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company, the Selling Shareholder or their affiliates. They have received customary fees and commissions for these transactions and services.

Deutsche Bank Trust Company Americas, which is an affiliate of Deutsche Bank AG, has been appointed by the Company to act as Depositary in connection with the issuance of the GDRs. Deutsche Bank Trust Company Americas is a wholly owned subsidiary of Deutsche Bank Trust Corporation, a registered bank holding company which is a wholly owned subsidiary of Deutsche Bank AG.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") an offer to the public of Securities in that Relevant Member State which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State prior to the publication of a prospectus in relation to the Securities which has been approved by the competent authority in that Relevant Member State, or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer to the public in that Relevant Member State of securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators, for any such offer; or
- in any other circumstances which do not require the publication by the Company of a Prospectus pursuant to Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Securities to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The EEA selling restriction is in addition to any other selling restrictions set out below.

Russia

No GDRs have been offered or sold or will be offered or sold to or for the benefit of any persons resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia, unless and to the extent permitted by Russian law.

Since neither the issuance of the GDRs nor a Russian securities prospectus in respect of the GDRs has been registered, or is intended to be registered, with the FSFM, at no time should any person carry out any activities in breach of the restrictions set forth above.

United States

The Ordinary Shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Ordinary Shares and GDRs are being offered to investors outside the United States in reliance on Regulation S. The Underwriting Agreement provides that the Managers may through their respective US broker-dealer affiliates arrange for the offer and resale of Ordinary Shares and GDRs within the United States only to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Ordinary Shares and the GDRs, an offer or sale of Ordinary Shares or GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Japan

No Ordinary Shares or GDRs have been or will be registered under the Securities and Exchange Law of Japan, and no Ordinary Shares or GDRs have been offered or sold, and will be offered or sold, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Canada

This document is not, and under no circumstances is it to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Representations and agreements by purchasers

The offer is being made in Canada only in the Canadian provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Prince Edward Island, New Brunswick, Nova Scotia and Newfoundland & Labrador (the "Canadian Jurisdictions") by way of a private placement of Ordinary Shares and GDRs. The offer in the Canadian Jurisdictions is being made pursuant to this document through the Managers named in this document or through their selling agents who are permitted under applicable law to distribute such securities in Canada. Each Canadian investor who purchases the Ordinary Shares or GDRs will be deemed to have represented to the Company, the Selling Shareholder and the Managers that: (1) the offer and sale was made exclusively through this document and was not made through an advertisement of the Ordinary Shares or GDRs in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada; (2) such investor has reviewed the terms referred to below under "Canadian Resale Restrictions"; (3) where required by law, such investor is, or is deemed to be, acquiring the Ordinary Shares or GDRs as principal for its own account in accordance with the laws of the Canadian Jurisdiction in which the investor is resident and not as agent or trustee; and (4) such investor or any ultimate investor for which such investor is acting as agent is entitled under applicable Canadian securities laws to acquire the Ordinary Shares or GDRs without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing: (i) in the case of an investor resident in a province or territory other than Ontario or Newfoundland & Labrador, without the Manager having to be registered; (ii) in the case of an investor resident in British Columbia, Alberta, Saskatchewan, Manitoba, Québec, New Brunswick, Nova Scotia or Prince Edward Island such investor is an "accredited investor" as defined in section 1.1 of National Instrument 45-106—*Prospectus and Registration Exemptions* ("NI 45-106"); (iii) in the case of an investor resident in Ontario or Newfoundland & Labrador, such investor, or any ultimate investor for which such investor is acting as agent (a) is an "accredited investor", other than an individual, as defined in NI 45-106 and is a person to which a dealer registered as an international dealer within the meaning of section 98 of the Regulation to the *Securities Act* (Ontario) (the "OSA") or section 86 of the Regulation under the *Securities Act* (Newfoundland & Labrador) (the "NLSA") may sell the GDRs or (b) is an "accredited investor", including an individual, as defined in NI 45-106 who is purchasing the Ordinary Shares or GDRs from a fully registered dealer within the meaning of section 204 of the Regulation to the OSA or section 169 of the Regulation under the NLSA; and (5) such investor, if not an individual or an investment fund, has a pre-existing purpose and was not established solely or primarily for the purpose of acquiring the Ordinary Shares or GDRs in reliance on an exemption from applicable prospectus requirements in the Canadian Jurisdictions.

Each resident of Ontario who purchases the Ordinary Shares or GDRs will be deemed to have represented to the Company and the Managers that such investor: (a) has been notified by the Company (i) that the Company is required to provide information ("personal information") pertaining to the investor as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any Ordinary Shares or GDRs purchased), which Form 45-106F1 is required to be filed by the Company under NI 45-106; (ii) that such personal information will be delivered to the Ontario Securities Commission (the "OSC") in accordance with NI 45-106; (iii) that such personal information is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario; (iv) that such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (v) that the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administration Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 5520 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and (b) has authorised the indirect collection of the personal information by the OSC. Further, the investor acknowledges that its name, address, telephone number and other specified information, including the number of Ordinary Shares or GDRs it has purchased and the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws. Each resident of a Canadian Jurisdiction other than Ontario who purchases the Ordinary Shares or GDRs hereby acknowledges to the Company and the Managers that its name and other specific information, including the number of Ordinary Shares or GDRs it has purchased and the aggregate purchase price to the investor, may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian securities laws. By purchasing the Ordinary Shares or GDRs, each Canadian investor consents to the disclosure of such information.

Selling restrictions

Each Manager has agreed that (a) no prospectus has been issued or will be issued in respect of the Ordinary Shares or GDRs for distribution to the public under applicable Canadian securities laws, and (b) the Ordinary Shares or GDRs may not be offered or sold, directly or indirectly, in Canada except with the consent of the Managers and in compliance with applicable Canadian securities laws and accordingly, any sales of Ordinary Shares or GDRs will be made (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws; and (b) pursuant to an exemption from the prospectus requirements of such laws.

Language of document

Each purchaser of Ordinary Shares or GDRs in Canada that receives a purchase confirmation hereby agrees that it is such purchaser's express wish that all documents evidencing or relating in any way to the sale of such Ordinary Shares or GDRs be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières recevant un avis de confirmation à l'égard de son acquisition reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.*

Canadian resale restrictions

The distribution of the Ordinary Shares or GDRs in the Canadian Jurisdictions is being made on a private placement basis. Accordingly, any resale of the Ordinary Shares or GDRs must be made (i) through an appropriately registered dealer or in accordance with an available exemption from the dealer registration requirements of applicable provincial securities laws and (ii) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of Ordinary Shares or GDRs are advised to seek legal advice prior to any resale of Ordinary Shares or GDRs.

The Company is not, and may never be, a "reporting issuer", as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada in which the Ordinary Shares or GDRs will be offered, and there currently is no public market for any of the securities of the Company in Canada, including the Ordinary Shares or GDRs, and one may never develop. Under no circumstances will the Company be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Ordinary Shares or GDRs to the public in any province or territory of Canada. Canadian investors are advised that the Company currently has no intention to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Ordinary Shares or GDRs to the public in any province or territory in Canada.

Rights of action for damages or rescission

Securities legislation in some of the Canadian Jurisdictions provides some purchasers, in addition to any other rights they may have at law, with a remedy for rescission or damages or both where an offering memorandum and any amendment to it and, in some cases, advertising and sales literature used in connection therewith, contains a misrepresentation. Those remedies, or notice with respect thereto, must be exercised, or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation. Each purchaser should refer to the provisions of the applicable securities legislation for the particulars of these rights or consult with a legal adviser.

Rights for purchasers in Ontario

Securities legislation in Ontario provides purchasers resident in Ontario with a remedy for rescission or damages where this document and any amendment to it contain a misrepresentation. Potential investors should refer to the provisions of the Ontario securities legislation for the particulars of these rights or consult with a legal adviser. The following is a summary of the rights of rescission or right to damages available to an Ontario purchaser under the OSA. This summary is subject to the express provisions of the OSA and the regulations, rules and policy statements made thereunder and reference is made thereto for the complete text of such provisions. The rights described below are in addition to, and without derogation from, any other right or remedy available at law to the purchasers resident in Ontario and are intended to correspond to the provisions of the OSA and are subject to the defences contained therein.

When an offering memorandum, such as this document, is delivered to an investor to whom securities are sold in reliance upon the "accredited investor" prospectus exemption in section 2.3 of NI 45-106, the right of action referred to in section 130.1 of the OSA is applicable, unless the prospective purchaser is (a) a Canadian financial institution or a Schedule III bank, (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary. Section 130.1 provides purchasers who purchase securities offered by an offering memorandum with a statutory right of action against the issuer of the securities and any selling securityholder on whose behalf the distribution is made for rescission or damages in the event that the offering memorandum or any amendment to it contains a misrepresentation, without regard to whether the purchaser relied on the misrepresentation. When used herein, "misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in the light of the circumstances in which it was made.

In the event this document, together with any amendment to it, is delivered to an eligible purchaser resident in Ontario who acquired Ordinary Shares or GDRs in connection with a trade made in reliance on section 2.3 of NI 45-106, and this document contains a misrepresentation which was a misrepresentation at the time of purchase of the Ordinary Shares or GDRs, the purchaser will have, subject to the limitations hereinafter provided, a right of action against the Company and the Selling Shareholder for damages or, while still the owner of Ordinary Shares or GDRs, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages, provided that: (1) the owner of Ordinary Shares or GDRs will not be entitled to commence an action to enforce these rights after (a) in the case of an action for rescission, 180 days after the date of the purchase, or (b) in the case of an action for damages, the earlier of (i) 180 days from the day the purchaser first had knowledge of the facts giving rise to the misrepresentation and (ii) three years from the date of purchase of the Ordinary Shares or GDRs; (2) the defendant will not be liable to a purchaser if it proves that the purchaser purchased the Ordinary Shares or GDRs with knowledge of the misrepresentation; (3) in the case of an action for damages, the defendant will not be liable for all or any portion of such damages that it proves do not represent the depreciation in value of the Ordinary Shares or GDRs as a result of the misrepresentation relied upon; and (4) in no case will the amount recoverable in any action exceed the price at which the Ordinary Shares or GDRs were sold to the purchaser.

Subject to the paragraph below, all or any one or more of the Company and the Selling Shareholder are jointly and severally liable, and every person or company who becomes liable to make any payment for a misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, the Company shall not be liable where it is not receiving any proceeds from the distribution of the Ordinary Shares or GDRs being distributed and the misrepresentation was not based on information provided by the Company, unless the misrepresentation (a) was based on information that was previously publicly disclosed by the Company, (b) was a misrepresentation at the time of its previous public disclosure and (c) was not subsequently publicly corrected or superseded by the Company prior to the completion of the distribution of the Ordinary Shares or GDRs.

Rights for purchasers in New Brunswick

Pursuant to section 150 of the *Securities Act* (New Brunswick), if an offering memorandum, such as this document, together with any amendment thereto or any information relating to the offer, delivered to a New Brunswick purchaser in connection with a distribution of Ordinary Shares or GDRs, contains a misrepresentation and it was a misrepresentation at the time of purchase, the purchaser will be deemed to have relied upon the misrepresentation and will, as provided below, have a right of action against the Company and the Selling Shareholder for damages, or for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages, provided that among other limitations:

(a) no person is liable in an action for damages or rescission, if the person proves that the purchaser purchased the Ordinary Shares or GDRs with knowledge of the misrepresentation;

(b) in an action for damages, the defendant is not liable for all or any portion of the damages that the defendant proves do not represent the depreciation in value of the Ordinary Shares or GDRs as a result of the misrepresentation relied on;

(c) the Company shall not be liable where it is not receiving any proceeds from the distribution of the Ordinary Shares or GDRs being distributed and the misrepresentation was not based on information provided by the Company unless the misrepresentation (i) was based on information that was previously publicly disclosed by the Company, (ii) was a misrepresentation at the time of its previous public disclosure, and (iii) was not subsequently publicly corrected or superseded by the Company before the completion of the distribution of the Ordinary Shares or GDRs being distributed; and

(d) in no case shall the amount recoverable under these rights of action exceed the price at which the Ordinary Shares or GDRs were offered.

In case of an action for rescission, no action shall be commenced more than 180 days after the date of the transaction that gave rise to the cause of action and in the case of any action, other than an action for rescission, no action shall be commenced more than the earlier of (a) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action, and (b) six years after the date of the transaction that gave rise to the cause of action.

Rights for purchasers in Nova Scotia

In the event that an offering memorandum, such as this document, together with any amendments thereto, or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) is delivered to a Nova Scotia purchaser and contains a misrepresentation, the purchaser will be deemed to have relied upon such misrepresentation, if it was a misrepresentation at the time of purchase and has, subject to certain limitations and defences, a statutory right of action for damages against the seller and every director of the seller at the date of the offering memorandum or, alternatively, a right of rescission against the seller (in which case the purchaser shall have no right of action for damages) against the seller and the directors of the seller at the date of the offering memorandum, provided that, among other limitations:

(a) no person or company will be liable if it proves that the purchaser purchased the Ordinary Shares or GDRs with knowledge of the misrepresentation;

(b) in the case of an action for damages, no person or company will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Ordinary Shares or GDRs as a result of the misrepresentation relied upon;

(c) in no case will the amount recoverable exceed the price at which the Ordinary Shares or GDRs were offered. In addition, no person or company (other than a seller if the seller is also the Company) will be liable if such person or company proves that: (i) the offering memorandum or the amendment to the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after delivery of the offering memorandum or the amendment to the offering memorandum and before the purchase of the Ordinary Shares or GDRs by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, or amendment to the offering memorandum, the person or company withdrew the person's or company consent to the offering memorandum, or amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum or amendment to the offering memorandum purporting (A) to be made on the authority of an expert, or (B) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (1) there had been a misrepresentation, or (2) the relevant part of the offering memorandum or amendment to the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement or the expert.

Furthermore, no person or company (other than the seller if the seller is also the Company) will be liable under section 138 of the *Securities Act* (Nova Scotia) with respect to any part of the offering memorandum or amendment to the offering memorandum not purporting (i) to be made on the authority of an expert, or (ii) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (A) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation, or (B) believed that there had been a misrepresentation. If a misrepresentation is contained in a record incorporated by reference in, or deemed incorporated into, the offering memorandum or amendment to the offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum or amendment to the offering memorandum.

No action may be commenced to enforce the right of action as described above more than 120 days after the date on which payment was made for the Ordinary Shares or GDRs or after the date on which the initial payment for the Ordinary Shares or GDRs was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

Rights for purchasers in Saskatchewan

Section 138 of *The Securities Act*, 1988 (Saskatchewan), as amended (the "Saskatchewan Act") provides that where an offering memorandum (such as this document) or any amendment to it is sent or delivered to a purchaser and it contains a misrepresentation (as defined in the Saskatchewan Act), a purchaser who purchases a security covered by the offering memorandum or any amendment to it is deemed to have relied upon that misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for rescission against the issuer or a selling security holder on whose behalf the distribution is made or has a right of action for damages against:

(a) the issuer or a selling security holder on whose behalf the distribution is made;

(b) every promoter and director of the issuer or the selling security holder, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered;

(c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;

(d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed the offering memorandum or the amendment to the offering memorandum; and

(e) every person who or company that sells securities on behalf of the issuer or selling security holder under the offering memorandum or amendment to the offering memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

(a) if the purchaser elects to exercise its right of rescission against the issuer or selling security holder, it shall have no right of action for damages against that party;

(b) in an action for damages, a defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities resulting from the misrepresentation relied on;

(c) no person or company, other than the issuer or a selling security holder, will be liable for any part of the offering memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;

(d) in no case shall the amount recoverable exceed the price at which the securities were offered; and

(e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation.

In addition, no person or company, other than the issuer or selling security holder, will be liable if the person or company proves that:

(a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; or

(b) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Not all defences upon which the Company or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser is deemed to have relied on the misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for damages against the individual who made the verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or (b) in the case of any other action, other than an action for rescission, the earlier of: (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act with the right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

Enforcement of legal rights

All of the directors and officers (or their equivalents) of the Company and the Selling Shareholder, as well as any experts named herein, may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company, the Selling Shareholder or such experts. All or a substantial portion of the assets of the Company, the Selling Shareholder and such experts may be located outside of Canada and, as a result, it may not be possible to satisfy a judgement against the Company, the Selling Shareholder or such experts in Canada or to enforce a judgement obtained in Canadian courts against the Company, the Selling Shareholder or such experts outside of Canada.

Canadian tax considerations and eligibility for investment

This document does not address the Canadian tax consequences of ownership of the Ordinary Shares or GDRs. Prospective purchasers of Ordinary Shares or GDRs should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the Ordinary Shares or GDRs for investment by purchasers under relevant Canadian legislation.

Currency

The financial statements and certain other financial information disclosed in this Prospectus are presented in Russian roubles unless indicated otherwise. The following tables set out for the periods indicated, the period-end, high, low and average Canadian Noon Rates(1) between the Canadian dollar ("CAD") and the Russian rouble (expressed in RUB per CAD1.00):

Period(2)	Period-end	High	Low	Average
2006	22.59	24.96	22.59	23.97
2005	24.65	25.04	22.05	23.34
2004	23.03	24.08	20.79	22.13
2003	22.62	22.97	20.29	21.91
2002	20.23	20.85	18.97	19.98

(1) The term "Canadian Noon Rate" means the Bank of Canada noon exchange rate.

(2) Unless otherwise specified, each reference to a year is a year ended 31 December.

On 19 January 2007, CAD1.00 = RUB 22.64, based on the Canadian Noon Rate.

These exchange rates are provided only for the convenience of the reader. No representation is made that the Russian rouble amounts could have been converted into Canadian dollars at the above rates on any of the dates indicated or at any other rate.

For information on legislation relating to withholding taxes in respect of the GDRs, please refer to the section entitled "Taxation".

United Arab Emirates

This Prospectus does not, and is not intended to, constitute a public offer, sale or delivery of shares or securities in the United Arab Emirates (the "U.A.E.") or an invitation or an offer of securities in the U.A.E., and should not be construed as such. This Prospectus is being issued to a limited number of sophisticated investors: (a) upon their confirmation that they understand, acknowledge and agree that this Prospectus is strictly private and confidential and that this Prospectus, the private placement, and the Securities have not been reviewed, deposited, approved or licensed by or registered by or with the U.A.E. Central Bank, the U.A.E. Ministry of Economy or any other authority or governmental agency in the U.A.E., nor have the Managers received authorisation or licensing from the U.A.E. Central Bank, the U.A.E. Ministry of Economy or any other authority in the U.A.E. to market or sell any financial products or securities within the U.A.E., and (b) on the condition that this Prospectus will not and must not be provided to any person other than the original recipient, is not for general circulation in the U.A.E. and may not be reproduced or used for any other purpose. The Securities may not be offered or sold directly or indirectly to the public in the U.A.E.

No marketing of any financial products or services has been or will be made from within the U.A.E., and no subscription to any securities, products or financial services may or will be consummated within the U.A.E. The Managers are not licensed brokers or dealers or investment advisers under the laws applicable in the U.A.E. and do not advise individuals resident in the U.A.E. as to the appropriateness of investing in or purchasing or selling securities or other financial products. Nothing contained in this Prospectus is intended to constitute U.A.E. investment, legal, tax, accounting or other professional advice. This Prospectus is for your information only, and nothing in this Prospectus is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

Kuwait

By receiving this document, the person or entity to whom it has been issued understands, acknowledges and agrees that this document has not been approved by the Kuwait Central Bank, the Kuwait Ministry of Commerce and Industry or any other authority in Kuwait, nor have the Managers received authorisation or licensing from the Kuwait Central Bank, the Kuwait Ministry of Commerce and Industry or any other authority in Kuwait to market or sell the Securities within Kuwait.

The Securities are offered to a limited number of sophisticated investors whose minimum investment should not be less than the equivalent of Kuwaiti Dinar 50,000 (equivalent to approximately U.S.$14,460 on 19 January 2007). Any offer of the Securities should be made through a private placement conducted by a Manager authorised to carry out investment business in the state of Kuwait in accordance with Law No. 31/1990 and its amendments related to the trading of Securities and the incorporation of investment funds in Kuwait.

No marketing of any financial products or services has been or will be made from within Kuwait, and no subscription to any Securities, financial products or financial services may or will be consummated within Kuwait. The Managers do not advise parties in Kuwait as to the appropriateness of investing in, purchasing or selling securities or other financial products. Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. This document is for your information only, and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

General

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Ordinary Shares or the GDRs, or the possession or distribution of this Prospectus or any other material relating to the Offering or the Ordinary Shares and GDRs, where action for such purpose is required. Accordingly, the Ordinary Shares and GDRs, may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering material or advertisement in connection with such Securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulation of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Selling Shareholder or any Manager. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Securities other than the Securities to which it relates or an offer to sell or the solicitation of an offer to buy such Securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

Buyer's Representation

Each subscriber for, or purchaser of, Securities in the Offering located within a Member State of the European Economic Area will be deemed to have represented, warranted and agreed to and with each Manager, the Selling Shareholder and the Company that:

(a) it is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Securities being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the Securities acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Securities to the public other than their offer or resale in a Relevant Member State to qualified investors, as that term is defined in the Prospectus Directive or in circumstances in which the prior consent of the Managers has been given to the offer or resale. The Company, the Managers and their Affiliates, and others will rely (and the Company acknowledges that the Managers and their Affiliates, and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the foregoing, a person who is not a qualified investor and who has notified the Lead Managers of such fact in writing may, with the consent of the Lead Managers, be permitted to subscribe for or purchase Securities in the Offering.

The Company, the Managers and their Affiliates may rely upon the truth and accuracy of the aforementioned deemed representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

Transfer restrictions

None of the Ordinary Shares or the GDRs has been or will be registered under the Securities Act, and the Ordinary Shares and the GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Ordinary Shares and the GDRs are being offered and sold only:

(a) to QIBs in compliance with Rule 144A; and

(b) in offshore transactions in compliance with Regulation S. As used in this document, the term "offshore transaction" has the meaning given to it in Regulation S.

Rule 144A Ordinary Shares and GDRs

Each purchaser of Rule 144A Ordinary Shares or GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Rule 144A GDRs or Ordinary Shares has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs or Ordinary Shares for its own account or for the account of a QIB.

2. The purchaser is aware that the Rule 144A GDRs and the Ordinary Shares represented thereby have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that the GDRs and the Ordinary Shares represented thereby are subject to significant restrictions on transfer.

3. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Rule 144A GDRs or the Ordinary Shares represented thereby, such Rule 144A GDRs and Ordinary Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Rule 144A GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. ANY OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT

SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

4. The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Rule 144A Ordinary Shares or GDRs will be deemed to have acknowledged that the Company, the Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the Rule 144A Ordinary Shares or GDRs are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring the Rule 144A Ordinary Shares or GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing representations and agreements on behalf of each account.

Prospective purchasers are hereby notified that sellers of the Rule 144A Ordinary Shares or GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Ordinary Shares and GDRs

Each purchaser of Regulation S Ordinary Shares or GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser (i) is, and the person, if any, for whose account it is acquiring the Regulation S GDRs or Ordinary Shares is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire the Regulation S GDRs or the Ordinary Shares represented thereby from the Company or an affiliate thereof in the initial distribution of Regulation S.

2. The purchaser is aware that the Regulation S GDRs and the Ordinary Shares represented thereby have not been and will not be registered under the Securities Act, and are being offered outside the United States in reliance on Regulation S.

3. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Regulation S GDRs or the Ordinary Shares represented thereby, such Regulation S GDRs and Ordinary Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Regulation S GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law.

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

4. The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Regulation S Ordinary Shares or GDRs will be deemed to have acknowledged that the Company, the Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the Regulation S Ordinary Shares or GDRs are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring the Regulation S Ordinary Shares or GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

For restrictions on deposits, withdrawals and transfers by affiliates of the Company, see also "Terms and Conditions of the Global Depositary Receipts—Ownership of GDRs by Affiliates"

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including Managers, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—United States Federal Income Tax Considerations".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by Mellon Investor Services LLC as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxemburg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear and Clearstream are paid by it to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are paid by it to DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements.

Settlement and Delivery of Ordinary Shares

Each purchaser of the Ordinary Shares in the Offering is required to pay for any Ordinary Shares in same-day funds and the Ordinary Shares will be delivered to such purchasers on or about the Ordinary Share Closing Date. In order to take delivery of the Ordinary Shares, potential purchasers may be required to have a depo account at one or more depositaries designated by the Selling Shareholder. Upon taking delivery of the Ordinary Shares, purchasers may choose to hold the Ordinary Shares through a direct account with the Company's share registrar; however, directly-held Ordinary Shares are ineligible for trading on the RTS or MICEX. In addition, in order to trade Ordinary Shares on the RTS or MICEX, investors may be required to further transfer their Ordinary Shares to an account at a different depositary.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of transfer restrictions relating to the GDRs and Ordinary Shares, see "Selling and Transfer Restrictions".

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least two business days prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxemburg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxemburg and DTC, none of Euroclear, Clearstream, Luxemburg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxemburg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is Deutsche Bank Trust Company Americas. Deutsche Bank Trust Company Americas was incorporated on March 5, 1903 as a bank with limited liability in the State of New York and is an indirect wholly owned subsidiary of Deutsche Bank AG. The Depositary is subject to regulation and supervision by the New York State Banking Department, the Federal Reserve Board and the Federal Deposit Insurance Corporation. The registered office of the Depositary is located at 60 Wall Street, New York, New York 10005, and the registered number is BR1026. A copy of the Depositary's By-laws, as amended, together with copies of the most recent financial statements and annual report of the Depositary will be available for inspection at the principal administrative establishment of the Depositary located at 60 Wall Street, DR Department, 27th Floor, New York, New York 10005 and at the office of the Depositary located at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Such information will be updated as long as the GDRs are admitted to listing on the Official List and admitted to trading on the London Stock Exchange's regulated market for listed securities and Deutsche Bank Trust Company Americas is the Depositary.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Company with respect to Russian law by Skadden, Arps, Slate, Meagher & Flom LLP and with respect to U.S. and English law by Skadden, Arps, Slate, Meagher & Flom (UK) LLP. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to U.S., English, and Russian law by Cleary Gottlieb Steen & Hamilton LLP.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company as of and for the years ended 31 December, 2005, 2004 and 2003, included in the prospectus, have been audited by ZAO PricewaterhouseCoopers Audit ("PwC"), independent auditors, 36/40 Sredny Prospect, V.O. 199004. Saint Petersburg, Russian Federation, as stated in their report appearing herein.

With respect to the unaudited interim consolidated financial statements of the Company as of 30 September 2006 and for the nine months ended 30 September 2006 and 2005, included in the Prospectus, PwC reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 22 December 2006, appearing herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PwC is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rosii)* and the Institute of Professional Accountants of Russia (*Institut Professionalnih Buhgalterov Rosii*).

GENERAL INFORMATION

1 CORPORATE INFORMATION

1.1 The Company was organised in Saint Petersburg, Russia as Open Joint Stock Company Polymetal and was registered under the laws of Russia on 12 March 1998. On 1 September 1998, the Company was renamed Open Joint Stock Company Interregional Scientific and Production Association Polymetal. On 27 December 2006, the Company was renamed Joint Stock Company Polymetal. The Company is registered in the Unified State Register of Legal Entities in Russia under number 1027802743308.

1.2 The principal legislation under which the Company operates is the legislation of the Russian Federation, and the regulations and orders made thereunder.

1.3 The registered address and the principal place of business of the Company is at Prospect Narodnogo Opolcheniya 2, Saint Petersburg, 198216, Russian Federation (Tel. No. +7 (812) 334-3666).

2 SIGNIFICANT SUBSIDIARIES

2.1 The following table sets forth certain information with respect to the Company's significant subsidiaries:

Entity(1)	Registered office address	Activity	Percentage interest owned by the Company(2)
OJSC Polymetal Management	2 Prospekt Narodnogo Opolcheniya, Saint Petersburg, 198216, Russian Federation	Management Services	100%
OJSC Okhotsk Mining and Geological Company	33 Ulitsa 40 Let Pobedy, Okhotsk, Khabarovsk Region, 682480, Russian Federation	Exploration and Mining	100%
CJSC Magadan Silver (ZAO Serebro Magadana)(3)	11 Naberezhnaya Reki Magadanki, Magadan, Magadan Region, 685000, Russian Federation	Exploration and Mining	100%
CJSC Silver Territory	12 Ulitsa Shosseinaya, Omsukchan Settlement, Magadan Region, 686410, Russian Federation	Exploration and Mining	100%
CJSC Northern Urals Gold (CJSC Gold of Northern Urals)	4 Ulitsa Karpinskogo, Krasnoturinsk, Sverdlovsk Region, 624460, Russian Federation	Exploration and Mining	100%
LLC Trading House Polymetal	2 Prospekt Narodnogo Opolcheniya, Saint Petersburg, 198216, Russian Federation	Logistics and Maintenance	100%
LLC Polymetal Finance	2 Prospekt Narodnogo Opolcheniya, Saint Petersburg, 198216, Russian Federation	Financing and Trading	100%
CJSC Polymetal Engineering (JSC Polymetal Engineering)	2 Prospekt Narodnogo Opolcheniya, Saint Petersburg, 198216, Russian Federation	Research and Engineering	100%
CJSC Georazvedka	33 Ulitsa 40 Let Pobedy, Okhotsk, Khabarovsk Region, 682480, Russian Federation	Exploration	100%
LLC Dukat Exploration	31 Prospekt Pobedy, Dukat Settlement, Omsukchan District, Magadan Region, 686417, Russian Federation	Exploration	100%

Entity[(1)]	Registered office address	Activity	Percentage interest owned by the Company[(2)]
LLC Northern Urals Exploration	3 Ulitsa Karpinskogo, Karpinsk, Sverdlovsk Region, 624930, Russian Federation	Exploration	100%
CJSC Northern Urals Mining Company	4 Ulitsa Karpinskogo, Krasnoturinsk, Sverdlovsk Region, 624460, Russian Federation	Real Estate Holding Company	99.9%
LLC Tekhnometall	12 Ulitsa Proletarskaya, Magadan, Magadan Region, 685000, Russian Federation	Non-operating	99%
CJSC Yenisey Mining and Geological Company (JSC Yeniseiskaya Mining and Geological Company)	56/1 Ulitsa Tsentralnaya, Pavlovshchina, Sukhobuzim District, Krasnoyarsk Region, 663042, Russian Federation	Exploration	100%[(4)]
LLC Imitzoloto (Imitzoloto Ltd.)	1 Ulitsa Kombinatskaya, Baley, Baley District, Chita Region, 673450, Russian Federation	Exploration	100%
LLC Resources Albazino (Albazino Resources Ltd.)	23A Ulitsa Pushkina, Khabarovsk, Khabarovsk Region, 680000, Russian Federation	Exploration	100%
CJSC Aurum	24 Ulitsa Kirova, Sukhoy Log, Sverdlovsk Region, 624800, Russian Federation	Exploration	85%
CJSC Mining Ore Company Dukat	2 Prospekt Narodnogo Opolcheniya, Saint Petersburg, 198216, Russian Federation	Non-operating	85%
Polyholding Limited	Arch. Makariou III, 2-4 Capital Centre, 9th Floor, P.C. 1065, Nicosia, Cyprus	Holding Company	100%

(1) All subsidiaries are incorporated in Russia except for Polyholding Limited, which is incorporated in Cyprus.

(2) Due to the requirements of Russian law, a shareholder wholly-owned by the Group holds one share of each subsdiary's stock, except for CJSC Northern Urals Mining Company and LLC Tekhnometall in which one share and one participatory interest, respectively are held by LLC Accord-Invest, a company affiliated with the Selling Shareholder.

(3) Inserted in brackets are the names of the companies as indicated in such company's charters.

(4) 100% of CJSC Yenisey Mining and Geological Company is held by Polyholding Limited, a Cypriot entity wholly owned by JSC Polymetal.

3 LICENCES

The Group holds several licences for extraction, exploration and geological study of precious metals that are material for its business. In addition, the Group holds other licences necessary for its operations that, among other things, include licences for extraction of ground water, use and production of explosive materials, surveying works, use of hazardous waste and exploitation of explosive objects.

Under the terms of its licences, the Group must comply with certain requirements, including, *inter alia*, compliance with environmental, industrial and labour safety regulations; economic and social obligations, such as contracting with Russian businesses for the production of equipment and rendering services and creating employment opportunities for the local population; obligations to carry out reclamation of land used upon completion of the activities provided for by the licences; and certain other requirements of Russian law. See "Certain Regulatory Matters—Licences." A description of the Group's material licences related to extraction, exploration and geological study of precious metals is set out below.

3.1 *Magadan Silver (Dukat, Dukat Prospective Area and Dukat Ore Field)*

3.1.1 CJSC Magadan Silver ("Magadan Silver") holds subsoil licence series MAG number 03211 type BE registered on 5 December 2000 for extraction of gold, silver and foreign-metal impurities at the Dukat gold and silver deposit (the "Dukat Licence"). The Dukat Licence expires on 31 December 2017.

(a) The Dukat Licence was originally issued to CJSC Dukat Silver and was re-issued to Magadan Silver on the same terms in May 2001 due to foundation of Magadan Silver by CJSC Dukat Silver and CJSC Mining Ore Company Dukat.

(b) Under the Dukat Licence, Magadan Silver has the exclusive right to extract gold, silver and foreign-metal impurities at the mining allotment of 11.4 sq. km sited in the Omsukchansky district of the Magadan region. Under the Dukat Licence, Magadan Silver must pay the mineral extraction tax and water use tax and make any other payments in accordance with Russian law.

(c) Under the Dukat Licence, Magadan Silver is required to ensure extraction of 750 thousand tonnes of ore per annum starting from 2006.

3.1.2 Magadan Silver holds subsoil licence series MAG number 03894 type BP registered on 25 August 2006 for geological study - prospecting and assessment of lode silver and gold deposits in the Dukat Prospective Area (the "Dukat Prospective Area Licence"). The Dukat Prospective Area Licence expires on 18 July 2011.

(a) Under the Dukat Prospective Area Licence, Magadan Silver has the exclusive right to carry out geological study — prospecting and assessment of lode silver and gold deposits at the Dukat Prospective Area within the area of 2,420 sq. km situated in the Omsukchansky district of the Magadan region. Magadan Silver must make regular payments for prospecting and assessment of original gold deposits in the amount of RUB 90 per sq. km in 2006-2008, RUB 180 per sq. km in 2009-2010 and RUB 270 per sq. km in 2011 as well as other payments in accordance with Russian law.

(b) Under the Dukat Prospective Area Licence, Magadan Silver, among other things, must: (i) prepare the project for prospecting works by 1 July 2007 and obtain positive state environmental expert opinion on such project; (ii) commence geological study of the licenced area by 1 September 2007; (iii) submit to the Magadan Region Subsoil Agency report on geological study of the licensed area, which must include the reserves estimate by 1 June 2011.

3.1.3 Magadan Silver holds subsoil licence series MAG number 13850 type BR registered on 29 November 2006 for geological study, exploration and extraction of silver and gold at the Dukat Ore Field (the "Dukat Ore Field Licence"). The Dukat Ore Field Licence expires on 30 November 2031.

(a) Under the Dukat Ore Field Licence, Magadan Silver has the exclusive right to carry out geological study, exploration and extraction of silver and gold at the Dukat Ore Field within the area of 40.6 sq. km (with the exception of the area of the Dukat Licence mining allotment) situated in the Omsukchansky district of the Magadan region.

(b) Under the Dukat Ore Field Licence, Magadan Silver must make (i) regular payments for prospecting and assessment works in the amount of RUB 90 per sq. km in 2006 and RUB 180 per sq. km in 2007-2011; (ii) regular payment for exploration works in the amount of RUB 8,925 per sq. km for a period from the first to the third calendar years of exploration works, but not later than 2012; RUB 18,000 per sq. km for a period from the forth and the subsequent calendar years of exploration works but not later than 2015; (iii) mineral extraction tax and water use tax and (iv) any other payment in accordance with Russian law.

(c) Under the Dukat Ore Field Licence, Magadan Silver, among other things, must: (i) prepare the project for geological study of the licensed area by 30 November 2007 and obtain positive state expert opinion on such project; (ii) commence geological exploration works by 28 February 2008; (iii) complete the geological study of the licensed area by 30 November 2010; (iv) prepare project of exploration of the discovered deposits and obtain positive state expert opinion on such project by 30 May 2011; (vi) commence exploration works by 30 November 2011; (vii) complete exploration works and submit the reserves estimate report for the state expertise by

30 November 2013; (viii) prepare, agree and approve the technical project of industrial development of the licensed area by 30 November 2014; (ix) commence construction of infrastructure facilities for an ore mining enterprise by 30 March 2015; (x) commence commercial extraction of gold and silver by 30 March 2015; (xi) put the ore mining enterprise having production capacity not lower than 100 tonnes of silver per annum into operation by 30 May 2015.

3.2 ***Silver Territory (Lunnoye and Arylakh)***

3.2.1 CJSC Silver Territory ("Silver Territory") holds subsoil licence series MAG number 02871 type BR registered on 26 October 1999 for geological study and extraction of gold and silver at the Lunnoye gold and silver deposit and its flanks (the "Lunnoye Licence"). The Lunnoye Licence expires on 31 December 2016.

(a) The Lunnoye Licence was originally issued to AO Geolog by the Administration of the Magadan region on 27 February 1992. As a result of AO Geolog reorganisation in 1999 (in the form of spin-off of Silver Territory) the Lunnoye Licence was re-issued to Silver Territory.

(b) Under the Lunnoye Licence, Silver Territory has the exclusive right to geological study and extraction of gold and silver at the mining allotment of 0.19 sq. km sited in the territory of the Lunnoye gold and silver deposit in the Omsukchansky district of the Magadan region.

(c) Under the Lunnoye Licence, Silver Territory must pay the mineral extraction tax and make any other payments in accordance with Russian law. Also, Silver Territory must ensure that the average annual extraction of silver and gold reaches 275 tonnes and 1.25 tonnes respectively in 2007 and must maintain this level through 2016. The Company has applied to renegotiate the terms of the Lunnoye Licence in order to reduce the required minimum production levels from 2007. Pending the application to amend the terms of the licence, the Company's production plan envisages production at Lunnoye at reduced levels, as compared with the terms of the Lunnoye Licence.

3.2.2 Silver Territory holds subsoil licence series MAG number 02870 type BR registered on 26 October 1999 for geological study and extraction of gold and silver at the Arylakh gold and silver deposit and its flanks (the "Arylakh Licence"). The Arylakh Licence expires on 31 December 2016.

(a) The Arylakh Licence was originally issued to AO Geolog and was re-issued to Silver Territory due to the reorganisation of AO Geolog (in the form of a spin-off of Silver Territory) in 1999.

(b) Under the Arylakh Licence, Silver Territory has the exclusive right to perform geological study and extraction of gold and silver within the mining allotment of 38.8 sq. km situated in the Srednekansky district of the Magadan region.

(c) Under the Arylakh Licence, Silver Territory must submit to the Magadan region Subsoil Agency its draft amendments to the licence agreement in connection with the possibility to carry out the development of the second ore body of the Arylakh gold and silver deposit not later than December 2010.

3.3 ***Okhotsk Mining and Geological Company (Khakanjinskoye and Yurievskoye)***

3.3.1 OJSC Okhotsk Mining and Geological Company ("Okhotsk Mining and Geological Company") holds subsoil licence series KhAB number 01160 type BE registered on 6 October 1998 for geological study and industrial development of the Khakanjinskoye gold and silver deposit (the "Khakanjinskoye Licence"). The Khakanjinskoye Licence expires on 31 December 2014.

(a) The Khakanjinskoye Licence was originally issued to Amour International Gold Mines, Ltd. and in 1998 was re-issued to Okhotsk Mining and Geological Company on the same terms following the formation of Okhotsk Mining and Geological Company by the Company and Amour International Gold Mines, Ltd. for the purpose of continuing licence activities.

(b) Under the Khakanjinskoye Licence, Okhotsk Mining and Geological Company has the exclusive right to extract and process gold and silver within the territory of the mining allotment of 50.24 sq. km sited in the Okhotsky district of the Khabarovsk region. Okhotsk Mining and Geological Company must pay (i) the mineral extraction tax and water use tax, (ii) make regular payments for prospecting and assessment works in the amount of RUB 270 per sq. km during 2006-2009 and regular payments for the exploration works in the amount of RUB 18,000 per sq. km starting in 2010 and (iii) make any other payments in accordance with Russian law.

(c) Under the Khakanjinskoye Licence, Okhotsk Mining and Geological Company is required to (i) complete prospecting and assessment works within the licensed area (except for already explored reserves areas) and submit geological report on the results of such works to the relevant authorities by 31 December 2009; (ii) prepare, agree and approve the project of exploration of the newly discovered deposits by 1 May 2010; (iii) complete exploration of the newly discovered deposits and submit the reserves estimate for the state mineral reserves expert examination by 31 December 2011; (iv) put the newly discovered deposits into operation by 31 December 2012.

3.3.2 Okhotsk Mining and Geological Company holds subsoil licence series KhAB 01161 type BE registered on 6 October 1998 for geological study and industrial development of the Yurievskoye gold and silver deposit (the "Yurievskoye Licence"). The Yurievskoye Licence expires on 31 December 2014.

(a) The Yurievskoye Licence was originally issued to Amour International Gold Mines, Ltd. in 1995 and was re-issued to Okhotsk Mining and Geological Company on the same terms in 1998 due to foundation of Okhotsk Mining and Geological Company by the Company and Amour International Gold Mines, Ltd. for the purposes of continuation of licence activities under the Yurievskoye Licence.

(b) Under the Yurievskoye Licence, Okhotsk Mining and Geological Company has the exclusive right to perform geological study and industrial development of the Yurievskoye gold and silver deposit within the licensed area of 50.2 sq. km sited in the Okhotsk district of the Khabarovsk region.

(c) Okhotsk Mining and Geological Company must make payments for prospecting and assessment works in the amount of 1% of the value of respective works and payment for exploration works in the amount of 3% of the value of respective works, as well as other payments in accordance with Russian law. Under the Yurievskoye Licence, Okhotsk Mining and Geological Company must (i) approve the project of industrial development of Yurievskoye deposit not later than 1 January 2008 and (ii) commence the extraction works not later than in 2009.

3.4 ***Gold of Northern Urals (Vorontsovskoye, Rudnichniy, Katasminskiy and Galkinskiy)***

3.4.1 CJSC Gold of Northern Urals ("Gold of Northern Urals") holds subsoil licence series SVE number 00696 type BR registered on 17 September 1998 for opencast exploration and development of the Vorontsovskoye ore gold deposit (the "Vorontsovskoye Licence"). The Vorontsovskoye Licence expires on 31 December 2018.

(a) Under the Vorontsovskoye Licence, Gold of Northern Urals has the exclusive right to extract gold within the territory of the mining allotment of 2.55 sq. km sited in the Vorontsovskoye gold deposit which is situated in Krasnoturinsk municipality of the Sverdlovsk region.

(b) Under the Vorontsovskoye Licence, Gold of Northern Urals must pay the mineral extraction tax and make any other payments in accordance with Russian law. Under the Vorontsovskoye Licence, Gold of Northern Urals is required to maintain production capacity of at least 300 thousand tonnes of ore per year.

3.4.2 Gold of Northern Urals holds subsoil licence series SVE number 02227 type BP registered on 10 August 2006 for geological study (prospecting and assessment) of lode gold in the Rudnichniy plot (the "Rudnichniy Licence"). The Rudnichniy Licence expires on 31 August 2011.

(a) Under the Rudnichniy Licence, Gold of Northern Urals has the exclusive right to carry out geological study (prospecting and assessment) of lode gold in the Rudnichniy Plot within the area of 7.9 sq. km situated near Krasnoturinsk in the Sverdlovsk region. Under the Rudnichniy Licence, Gold of Northern Urals must make regular annual payments in the amount of RUB 270 per sq. km. for prospective and assessment works.

(b) Under the Rudnichniy Licence, Gold of Northern Urals, among other things, must, (i) prepare and agree the project for geological study (prospecting and assessment) of the licensed area by 31 October 2007 and obtain positive state environmental expert opinion on such project; (ii) commence geological study by 31 January 2008; (iii) complete geological study by 31 August 2011 and submit the technical and economic assessment of temporary exploration conditions and geological report which must include reserves estimate for the state expert examination.

3.4.3 Gold of Northern Urals holds subsoil licence series SVE number 13533 type BR registered on 17 March 2006 for geological study, exploration and extraction of lode gold in the Katasminskiy plot (the "Katasminskiy Licence"). The Katasminskiy Licence expires on 1 March 2031.

(a) Under the Katasminskiy Licence, Gold of Northern Urals has the exclusive right to carry out geological study, exploration and extraction of lode gold in the Katasminskiy plot within the area of 28.2 sq. km situated in Novolyalinskiy district of the Sverdlovsk region. Under the Katasminskiy Licence, Gold of Northern Urals must make (i) regular payments for prospecting and assessment of gold deposits in the licensed area in the amount of RUB 90 per sq. km in 2006, RUR 266.4 per sq. km in 2007-2009, RUB 270 per sq. km in 2010; (ii) regular payments for exploration works in the amount of RUB 3,000 per sq. km for the first calendar year of exploration but not later than 2012, RUB 11,700 per sq. km for the second and third calendar years of exploration but not later than 2013, RUB 18,000 per sq. km for the fourth and subsequent calendar years of exploration but not later than 2015; and (iii) other payments in accordance with Russian law.

(b) Under the Katasminskiy Licence, Gold of Northern Urals must, among other things: (i) prepare and agree the project for geological study of the licensed area by 1 March 2007 and obtain a positive state environmental expert opinion on such project; (ii) commence geological study by 1 June 2007; (iii) complete geological study and submit the geological report which must include reserves and prospective resources estimate to the regional subsoil agency by 1 March 2010; (iv) complete exploration of the discovered gold deposits by 1 March 2013 and submit the prospecting works technical and economic assessment and geological report which must include reserves estimate for the state mineral reserves expert examination; (v) prepare, agree and approve the project of industrial development of the Katasminskiy plot not later than 1 March 2014 and obtain positive state environmental expert opinion on such project, and (vi) commence exploitation of the mining enterprise with a production capacity of at least 1.5 tonnes per year by 1 May 2015.

3.4.4 Gold of Northern Urals holds subsoil licence series SVE number 13448 type BP registered on 18 January 2006 for geological study - prospecting and assessment of lode gold deposits in the Galkinskiy plot (the "Galkinskiy Licence"). The Galkinskiy Licence expires on 1 December 2010.

(a) Under the Galkinskiy Licence, Gold of Northern Urals has the exclusive right to carry out geological study - prospecting and assessment of lode gold deposits in the Galkinskiy plot within the area of 3.5 sq. km situated in the Karpinsk municipality of the Sverdlovsk region. Under the Galkinskiy Licence, Gold of Northern Urals must make regular payments for prospecting and assessment of lode gold deposits in the licensed area in the amount of RUB 160 per sq. km in 2006-2008, RUB 270 per sq. km in 2009-2010, as well as other payments in accordance with Russian law.

(b) Under the Galkinskiy Licence, Gold of Northern Urals, among other things, must (i) complete prospecting works and prepare geological report not later than 1 June 2009 and (ii) complete assessment works and submit to the Urals Federal District Regional Subsoil Agency the geological study report which must include reserves estimate not later than 1 November 2010.

3.5 ***Resources Albazino (Albazinskiy)***

Albazino Resources, Ltd. ("Resources Albazino") holds subsoil licence series KhAB number 01966 type BR registered on 2 March 2006 for geological study and extraction of lode gold at the Albazinskiy plot (the "Albazinskiy Licence"). The Albazinskiy Licence expires on 1 January 2015.

(a) The Albazinskiy Licence was originally issued to JSC Far East Resources and was re-issued to Resources Albazino in 2006 due to foundation of Resources Albazino by JSC Far East Resources for continuation of licence activities under the Albazinskiy Licence.

(b) Under the Albazinskiy Licence, Resources Albazino has the exclusive right to develop and to extract lode gold within the licensed area of 82 sq. km situated in Polina Osipenko district of the Khabarovsk region. Under the Albazinskiy Licence, Resources Albazino must make regular payments in the amount of RUB 162 per sq. km for prospecting and assessment works and in the amount of RUB 11,250 per sq. km for exploration works.

(c) Under the Albazinskiy Licence, Resources Albazino must (i) complete prospecting and assessment works and file respective geological report to the regional subsoil agency by 2009, (ii) prepare and agree the technical project for development of the licensed area by 2009 and obtain positive state environmental expert opinion on such project, (iii) commence construction of an ore mining enterprise and infrastructure facilities by 2009, (iv) put into operation the ore mining enterprise with the production capacity of 50,000 tonnes of ore per year by December 2010, and (v) complete exploration of the Albazinskiy plot and file a geological report indicating industrial reserves for state geological expert examination by 31 December 2010.

3.6 ***Aurum (Fevralskoye and Ikryanskoye)***

3.6.1 CJSC Aurum ("Aurum") holds subsoil licence series SVE number 02053 type BR registered on 26 August 2005 for geological study and extraction of gold within Reftinskaya Zone plot, including the Fevralskoye and Ikryanskoye deposits (the "Fevralskoye and Ikryanskoye Licence"). The Fevralskoye and Ikryanskoye Licence expires on 16 September 2018.

(a) Under the Fevralskoye and Ikryanskoye Licence, Aurum has the exclusive right to perform geological study and extraction of gold within the licensed area of 0.58 sq. km sited in the Sukhoy Log municipality of the Sverdlovsk region. Under the Fevralskoye and Ikryanskoye Licence, Aurum must make (i) regular annual payments for assessment works in the amount of RUB 286.2 per sq. km and (ii) regular annual payments for exploration in the amount of RUB 11,850 per sq. km; and (iii) mineral extraction tax.

(b) Under the Fevralskoye and Ikryanskoye Licence, Aurum, among other things, must (i) complete geological study of the licensed area by 31 December 2010 and (ii) commence industrial extraction of gold by 1 July 2013.

3.7 ***Yenisey Mining and Geological Company (Anenskiy)***

3.7.1 CJSC Yenisey Mining and Geological Company ("Yenisey Mining and Geological Company") held subsoil licence series KRR number 01419 type BP registered on 12 April 2004 for prospecting and assessment of lode gold at the Anenskiy plot (the "Anenskiy Licence"). The Anenskiy Licence expired on 31 December 2006. The Company has applied for renewal and conversion of the Anenskiy Licence to a combined production and exploration licence and expects this licence to be granted in the first quarter of 2007.

(a) The Anenskiy Licence was originally issued to RK "Prospectors' Crew Tsentralnaya" and was re-issued to Yenisey Mining and Geological Company in 2004 due to foundation of Yenisey Mining and Geological Company by RK "Prospectors' Crew

Tsentralnaya" for the purposes of continuation its licence activities under the Anenskiy Licence.

(b) Yenisey Mining and Geological Company had the exclusive right to carry out prospecting and assessment of lode gold at the land plot of 11.8 sq. km situated in the Sukhobuzimsky district of the Krasnoyarsk region. Under the Anenskiy Licence, Yenisey Mining and Geological Company was obliged to make payments in the amount of RUB 220 per sq. km for prospecting and assessment works.

(c) On 15 August 2006 Yenisey Mining and Geological Company applied to the Krasnoyarsk region's Territorial Agency for Subsoil Use for issuance of a licence for geological study, exploration and extraction of the lode gold at the Anenskiy plot.

3.8 ***Imitzoloto (Aprelkovsko-Peshkovsky)***

3.8.1 LLC Imitzoloto ("Imitzoloto") holds subsoil licence series ChIT number 01422 type BP registered on 7 August 2003 for geological study of the Aprelkovsko-Peshkovsky ore cluster for the purposes of prospecting and assessment of lode gold deposits (the "Aprelkovsko-Peshkovsky Licence"). The Aprelkovsko-Peshkovsky Licence expires on 30 September 2008.

(a) Under the Aprelkovsko-Peshkovsky Licence, Imitzoloto has the exclusive right to carry out geological study of the Aprelkovsko-Peshkovsky ore cluster of 161.5 sq. km situated in the Nerchinsky and Shilkinsky districts of the Chita region for the purposes of prospecting and assessment of lode gold deposits. Under the Aprelkovsko-Peshkovsky Licence, Imitzoloto must make regular payments in the amount of RUB 268.2 per sq. km for prospecting and assessment works.

(b) Under the Aprelkovsko-Peshkovsky Licence, Imitzoloto must (i) complete geological study of the licensed area and submit the temporary exploration conditions and report on geological study which must include reserves estimate for the state mineral reserves expert examination by 31 March 2008 and (ii) file the report on geological study of the licensed area with federal and regional funds of geological information by 1 August 2008.

3.9 ***Georazvedka (Arkinskaya Ore Field and Khakarinskaya Field)***

3.9.1 CJSC Georazvedka ("Georazvedka") holds subsoil licence series KhAB number 01992 type BP registered on 19 June 2006 for geological study of lode gold and silver in the Arkinskaya Ore Field (the "Arkinskaya Licence"). The Arkinskaya Licence expires on 31 March 2011.

(a) Under the Arkinskaya Licence, Georazvedka has the exclusive right to carry out geological study of lode gold and silver in the Arkinskaya Ore Field for the purpose of prospecting and assessment of gold and silver deposits within the area of 135 sq. km situated in the Okhotskiy district of the Khabarovsk region. Under the Arkinskaya Licence, Georazvedka must make regular payments for the prospecting and assessment works in the amount of RUB 243 per sq. km.

(b) Under the Arkinskaya Licence, Georazvedka must (i) prepare the project for geological study of the licenced area by 1 May 2007 and obtain positive state expert opinion on such project, (ii) commence geological study not later than 1 May 2007, and (iii) complete geological study of the licensed area and submit the report on geological study for state mineral reserves expert examination by 31 March 2011.

3.9.2 CJSC Georazvedka ("Georazvedka") holds subsoil licence series KhAB number 01960 type BR registered on 26 January 2006 for geological study and extraction of lode gold and silver within the Khakarinskaya Field (the "Khakarinskaya Licence"). The Khakarinskaya Licence expires on 31 December 2025.

(a) Under the Khakarinskaya Licence, Georazvedka has the exclusive right to carry out geological study and extraction of lode gold and silver at the Khakarinskaya Field within the area of 64 sq. km situated in the Okhotsk district of the Khabarovsk region. The Khakarinskaya Licence provides for (i) the regular payments for geological study in the amount of RUB 243 per sq. km; (ii) regular payments for exploration works in the amount of RUB 9,750 per sq. km; (iii) mineral extraction tax; (iv) other payments in accordance with Russian law.

(b) Under the Khakarinskaya Licence, Georazvedka, *inter alia*, must: (i) commence the geological study of the licensed area not later than 15 months from the state registration of the Khakarinskaya Licence; (ii) complete geological study and submit the prospective reserves and resources estimate report not later than 60 months; (iii) prepare and agree the project for exploration of deposits discovered during the geological study not later than 66 months and obtain positive state expert opinion of such project; (iv) commence the exploration works not later than 70 months and complete the respective works not later than 120 months; (v) prepare and approve technical project for ore extraction not later than 130 months; (vi) commence construction of infrastructure facilities for an ore mining enterprise not later than 136 months and (vii) commence exploitation of the mining enterprise with a production capacity of at least 100 thousand tonnes of ore per year not later than 150 months from the state registration of the Khakarinskaya Licence.

4 PROPERTY

4.1 The material properties owned or leased by the Group are as follows:

Description of Real Estate	Address	Land Use Rights
Magadan Silver		
Land plot of the sorting facilities of the Dukat Mine Area of 37.90 hectares.	Dukat, Omsukchan District, 500 meters westward from the settlement	Lease
Land plot of the administrative and amenity complex. Area of 0.71 hectares.	18 Prospekt Pobedy, Dukat, Omsukchan District	Lease
Land plot of the central compressor plant gallery. Area of 0.38 hectares.	Dukat Mine, Omsukchan District	Lease
Land plot used to expand the sorting facilities, to place outsized loads and for the construction of a motor road. Area of 1.2 hectares.	Dukat Mine, Omsukchan District	Lease
Land plot used for the supplementary development of the Malyutka Open Cast Mine. Area of 13 hectares.	Omsukchan, 4th km of the winter motor road Omsukchan-Kubaka	Lease
Land plot of the processing facilities of the Omsukchan Processing Plant. Area of 104.09 hectares.	Ulitsa Shosseinaya, Omsukchan	Lease
Land plot used for the development of the Dukat Silver Deposit. Area of 217.89 hectares.	Omsukchan District	Lease
Land plot of a 6 kW high voltage line (f.15) PS 110(35) in Dukat-PTP400 material and technical storage area. Area of 0.12 hectares.	Dukat Settlement	Perpetual use
Land plot of a 6 kW high voltage line (f.20) PTP-400 central boiler house—PTP-400 explosives warehouse. Area of 0.47 hectares.	Dukat Settlement	Perpetual use
Land plot of the material and technical storage area. Area of 1.92 hectares.	Dukat Settlement	Perpetual use
Land plot of the explosives warehouse with the adjacent area. Area of 6.6 hectares.	Dukat Settlement	Perpetual use

Description of Real Estate	Address	Land Use Rights
Land plot of an approach motor road: administrative and amenity complex—Dump No. 2. Area of 9.5 hectares.	Dukat Settlement	Perpetual use
Land plot of the mine site of Gallery 22-bis. Area of 0.69 hectares.	Dukat Settlement	Perpetual use
Land plot for the development of the Dukat silver deposit. Area of 217.89 hectares.	Dukat Settlement	Perpetual use
Land plot for the exploration and construction planning. Area of 94.12 hectares.	The lands of Omsukchan, site of Capacity III of the tailing dump of the Omsukchan Gold Processing Plant, 4 km northeastward from Omsukchan	Perpetual use
Constructions of the Omsukchan Gold Processing Plant. Outdoor heat and water supply and sewerage networks. The construction includes: a 452.73 meters long heat and water supply network, a 569.1 meters long sewage network, a 1,794.2 meters long industrial waterway.	Ulitsa Shosseinaya, Omsukchan, Omsukchan District	Ownership
Underground capital mine tunnels gor. 980 of the Dukat Mine. Capacity of 83,798.9 cubic m, 4,180 meters long mine tunnels.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Ore pre-treatment complex. Area of 609.13 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Pressure waterworks of the tailing dump of the Omsukchan Gold Processing Plant. Unit No. 2. The construction includes: Capacitor Symbol M with an area of 55 sq. m; a dam with a 6m wide crest, a 120m wide bottom, 20m high; a 2-line sludge way D 480mm; a 1 line waterway D 320mm.	Omsukchan, Omsukchan District	Ownership
Constructions of the Omsukchan Gold Processing Plant. A network of 10 inspection hydrogeological wells for environmental monitoring around the tailing dump of the Omsukchan Gold Processing Plant. Unit No. 2. Total well length of 250.0m.	Omsukchan, Omsukchan District	Ownership
Sample preparation premises. Area of 349.60 sq. m.	Dukat Mine, Omsukchan District	Ownership
Electrical laboratory. Area of 832.44 sq. m.	Omsukchan District	
Main building of the Omsukchan Gold Processing Plant. Area of 6,638.93 sq. m.	Ulitsa Shosseinaya, Omsukchan, Omsukchan District	Ownership
Geological samples preparation unit. Area of 352.27 sq. m.	Dukat, Omsukchan District	Ownership
Main building. Area of 4,324.85 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Production building. Area of 3,724.17 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership

Description of Real Estate	Address	Land Use Rights
Superpotent materials storage area. Area of 89.00 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Constructions of the Omsukchan Gold Processing Plant.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Roofed warehouse. Premises of a diesel power plant. Boiler house. Greenhouse. Amenity rooms. Area of 182.62 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Warehouse in the material and technical storage area. Area of 216.22 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Building for the preparation of explosives. Area of 55.15 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Building for ignatine preparation with a storage hopper. Area of 46.75 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Receiving bunker with a gallery. Area of 578.30 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Chemical laboratory. Area of 2,090.47 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Reagent warehouse and a room for reagent preparation. Area of 823.35 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Plant main building. Area of 3,039.68 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Power unit, complex facility of high capacity mills. Area of 253.10 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Industrial water pumping station with a water supply point. Area of 129.90 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Explosive materials storage area. Area of 208.90 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Receiving bunker with a gallery. Area of 802.85 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Aluminum powder warehouse. Area of 65.67 sq. m.	Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Technical warehouse. Area of 364.47 sq. m.	Omsukchan Gold Processing Plant, Omsukchan, Omsukchan District	Ownership
Fuel and lubricants warehouse. Area of 46.30 sq. m.	Smely Section, Dukat Mine, Dukat Settlement, Omsukchan District	Ownership
Silver Territory		
Land plot of additional allotments to the open cast mine. Area of 4.40 hectares.	Open cast mine. Lunnoye Deposit, Omsukchan, Omsukchan District	Lease
Land plot of the facilities of the ore mining and processing enterprise. Area of 91.025 hectares.	Lunnoye Deposit, Dukat, Omsukchan District	Lease
Land plot for exploration work. Area of 2.8 hectares.	Right bank of the Luna Stream 600-900 meters away from the bed. Lunnoye Deposit, Dukat, Omsukchan District	Lease

Description of Real Estate	Address	Land Use Rights
Land plot for exploration work. Area of 0.8 hectares.	Upper course of the Luna Stream. Lunnoye Deposit, Dukat, Omsukchan District	Lease
Land plot for the recovery of sand and gravel. Open cast mine No. 4. Area of 1.2 hectares.	Lunnoye Deposit, Omsukchan District	Perpetual Use
Land plot for the recovery of sand and gravel. Open cast mine No. 5. Area of 1.6 hectares.	Lunnoye Deposit, Omsukchan District	Perpetual Use
Land plot for the recovery of sand and gravel. Open cast mine No. 7. Area of 1.0 hectares.	Lunnoye Deposit, Omsukchan District	Perpetual Use
Land plot for the recovery of sand and gravel. Open cast mine No. 8. Area of 1.0 hectares.	Lunnoye Deposit, Omsukchan District	Perpetual Use
Land plot for the construction of the mining and concentration complex facilities at the Lunnoye Deposit. Area of 47.9 hectares.	Lunnoye Deposit, Omsukchan District	Perpetual Use
Land plot for the production centre. Area of 2.6 hectares.	Omsukchan District	Perpetual Use
Land plot for refuse heaps. Area of 5.0 hectares.	Lunnoye Deposit, Omsukchan District	Perpetual Use
Land plot for refuse heaps. Area of 3.1 hectares.	Lunnoye Deposit, Omsukchan District	Perpetual Use
Land plot for the construction of an ammonium nitrate warehouse. Area of 3.0 hectares.	Omsukchan District	Perpetual Use
Administrative and amenity complex (forms a part of the Production and Technical Furnishing Department). Area of 546.77 sq. m.	12 Ulitsa Shosseinaya, Omsukchan, Omsukchan District	Ownership
Repair depot (forms a part of the Production and Technical Furnishing Department). Area of 2,863.48 sq. m.	12 Ulitsa Shosseinaya, Omsukchan, Omsukchan District	Ownership
Tailing dump. Area of 180,000.00 sq. m.	Lunnoye Deposit, Srednekansky District	Ownership
Fuel and lubricants warehouse. Area of 70.20 sq. m.	Lunnoye Deposit, Omsukchan, Omsukchan District	Ownership
Sample preparation unit. Area of 104.79 sq. m.	Lunnoye Deposit, Omsukchan, Omsukchan District	Ownership
Ammonium nitrate warehouse. Area of 35.49 sq. m.	Lunnoye Deposit, Omsukchan District	Ownership
Chemical laboratory. Area of 417.90 sq. m.	Lunnoye Deposit, Omsukchan District	Ownership
RP-6 kW diesel power plant.	Lunnoye Deposit, Omsukchan, Omsukchan District	Ownership
Warehouse building. Area of 1,185.00 sq. m.	Lunnoye Deposit, Omsukchan District	Ownership
Shift camp. Area of 2,998.7 sq. m.	Lunnoye Deposit, Omsukchan District	Ownership

Description of Real Estate	Address	Land Use Rights
Explosives warehouse. Area of 76.90 sq. m.	Lunnoye Deposit, Omsukchan District	Ownership
Main building. Area of 5,885.99 sq. m.	Lunnoye Deposit, Omsukchan, Omsukchan District	Ownership
Container site.	Lunnoye Deposit, Omsukchan, Omsukchan District	Ownership
Ore breaking building with gallery No. 1. Area of 228.50 sq. m.	Lunnoye Deposit, Omsukchan, Omsukchan District	Ownership
Ore breaking building with gallery No. 2. Area of 435.50 sq. m.	Lunnoye Deposit, Omsukchan, Omsukchan District	Ownership

Northern Urals Mining Company

Description of Real Estate	Address	Land Use Rights
Blasting shift building. Total area of 119.20 sq. m.	3 Pervomaiskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Supplies storage building with a basement. Total area of 508.70 sq. m.	3 Pervomaiskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Warehouse building. Total area of 384.40 sq. m.	3 Pervomaiskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Fuel and lubricants warehouse building. Total area of 42.10 sq. m.	3 Pervomaiskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Fuel and lubricants warehouse building. Total area of 81.30 sq. m.	3a Pervomaiskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Finished products warehouse building. Total area of 74.80 sq. m.	3 Pervomaiskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Land plot. Area of 67,921.0 sq. m.	3 Pervomaiskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Lease
Land plot. Area of 66,713 sq m.	3 Pervomayskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Perpetual use

LLC Northern Urals Exploration Company

Description of Real Estate	Address	Land Use Rights
Supplies storage building with a basement. Area of 508.70 sq. m. Engine workshop building. Area of 276.60 sq. m. Electric shop building. Area of 177.50 sq. m.	3a Pervomaiskaya Ulitsa, Rudnichny Settlement, Krasnoturyinsk, Sverdlovsk Region	Lease

Trading House Polymetal

Description of Real Estate	Address	Land Use Rights
Portion of a warehouse Symbol B. Floors 1, 2 area of 1,084.2 sq. m.	79/1 Ulitsa Rechnaya, Magadan	Ownership

Description of Real Estate	Address	Land Use Rights
Yenisey Mining and Geological Company		
Land plot for the installation of the production centre. Total area of 0.8 hectares.	58 Ulitsa Tsentralnaya, Pavlovshchina, Sukhobuzimsky District, Krasnoyarsk Kray	Lease
Land plot for prospecting and evaluation work in connection with hardrock gold. Total area of 16 hectares.	Right bank of the Yenisey River, Sukhobuzimsky District, Krasnoyarsk Kray	Lease
Gold of Northern Urals		
Land plot with timber resources for the construction of experimental and industrial facilities for heap leaching of gold at the Vorontsovskoye deposit. Total area of 140.57 hectares (including wooded area of 119.85 hectares) with standing crop equal to 22,073m^3.	Vorontsovskoye Forestry of the Karpinsky Forestry Enterprise, Sverdlovsk Region	Temporary use
Land plot for design and exploration work at the site of the Vorontsovsky Mining and Concentration Complex with an area of 407.4 hectares and Vorontsovsk Settlement with an area of 4.6 hectares.	Karpinsky Forestry Enterprise, Sverdlovsk Region	Temporary use
Land plot for the industrial stage of the development of the Vorontsovskoye Hardrock Gold Deposit. Area of 172.37 hectares.	Karpinsky Forestry Enterprise on the state forest fund lands, Compartments 29-33, 36, 41, 43-45, 49	Temporary use
Land plot for the construction of linear facilities of the experimental and industrial gold production plant. Area of 1,304 hectares.	Karpinsky Forestry Enterprise, Sverdlovsk Region	Temporary use
Land plot for the construction of an ore mining and processing enterprise at the industrial stage of the development of the Vorontsovskoye deposit. 5.79 hectares of wooded forest lands.	Karpinsky Forestry Enterprise, Sverdlovsk Region	Temporary use
Land plot for the construction of an ore mining and processing enterprise at the industrial stage of the development of the Vorontsovskoye deposit. Area of 196.69 hectares.	Karpinsky Forestry Enterprise in Group II forests, Compartments 29, 30, 31, 32, 33, 36, 44, 45, 49 of the Vorontsovskoye Forestry	Temporary use
Analytical laboratory building. Non-residential. Area of 224.80 sq. meters.	Karpinsky Forestry Enterprise, Vorontsovka Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Chemical reagents warehouse building. Total area of 698.40 sq. m.	Karpinsky Forestry Enterprise, Vorontsovka Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Environmental laboratory building. Total area of 178.30 sq. m.	Karpinsky Forestry Enterprise, Vorontsovka Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Assay laboratory building. Total area of 313.40 sq. m.	Karpinsky Forestry Enterprise, Vorontsovka Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership

Description of Real Estate	Address	Land Use Rights
Chemical reagents cold warehouse building. Total area of 505.10 sq. m.	Karpinsky Forestry Enterprise, Vorontsovka Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Hangar. Total area of 1,115.00 sq. m.	Karpinsky Forestry Enterprise, Vorontsovka Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Construction: ore drying shelter. Area of 5,048.80 sq. m.	Karpinsky Forestry Enterprise, Vorontsovka Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Construction: weighing station shelter. Area of 124.90 sq. m.	Karpinsky Forestry Enterprise, Vorontsovka Settlement, Krasnoturyinsk, Sverdlovsk Region	Ownership
Supplies storage building. Total area of 78.4 sq. m.	Karpinsky Forestry Enterprise, Krasnoturyinsk, Sverdlovsk Region	Ownership
Sample preparation workshop building. Total area of 636.9 sq. m.	Karpinsky Forestry Enterprise, Krasnoturyinsk, Sverdlovsk Region	Ownership
Okhotsk Mining and Geological Company		
Land plot No. 4. Area of 19.6 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot No. 6. Area of 23.9 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot No. 7. Area of 10.2 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot No. 8. Area of 21.6 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot No. 9. Area of 195.9 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot No. 10. Area of 28.2 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot No. 1. Area of 181.5 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot No. 5. Area of 9.3 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot No. 11. Area of 1.5 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plots No. 10-A1-10-A5, 11, 14-21. Total area of 79.7 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plots No. 12, 13. Total area of 37.4 hectares.	Khakandzinskoye Deposit, Okhotsk District	Lease
Land plot. Area of 1.8 hectares.	Okhotsk District	Lease
Land plot. Area of 35,004.73 sq. m.	33 Ulitsa 40 Let Pobedy, Okhotsk	Lease
Land plot. Area of 18,016.24 sq. m.	11 Ulitsa Bolnichnaya, Okhotsk	Lease
Land plot. Area of 11,500 sq. m.	Former GRE base area, Okhotsk	Lease
Land plot. Area of 13,162.81 sq. m.	Ulitsa Zavodskaya, Okhotsk	Lease
Property complex.	33 Ulitsa 40 Let Pobedy, Okhotsk, Okhotsk District	Ownership

Description of Real Estate	Address	Land Use Rights
Frosting ground. Area of 16,700.00 sq. m.	Khakandzinskoye Deposit, Okhotsk, Okhotsk District	Ownership
Permanent base explosives warehouse. Area of 3,178.0 sq. m.	Okhotsk District	Ownership
Dumping grounds. Area of 2,600 square meters.	Khakandzinskoye Deposit, Okhotsk, Okhotsk District	Ownership
Polymetal Engineering		
Non-residential premises. Total area of 1,812/33 sq. m in a 14-storeyed office building.	Symbol A, 2 Prospekt Narodnogo Opolcheniya, Saint Petersburg	Lease
Polymetal Management		
Non-residential premises. Area of 1,369.56 sq. m.	2 Prospekt Narodnogo Opolcheniya, Saint Petersburg	Lease
Non-residential premises. Area of 652.80 sq. m.	2 Prospekt Narodnogo Opolcheniya, Saint Petersburg	Lease
Non-residential premises. Area of 11.70 sq. m.	2 Prospekt Narodnogo Opolcheniya, Saint Petersburg	Lease
Resources Albazino		
Fuel and lubricants storage tanks with an area of 1,498 hectares.	Polina Osipenko District, Khabarovsk Kray	Lease
Non-residential premises. Area of 1,666.5 sq. m.	Ulitsa 7ya Linia, Kherpuchi, Polina Osipenko District, Khabarovsk Kray Symbol A, A1, A2	Lease

5 SIGNIFICANT CHANGE

Save as disclosed in "Operating and Financial Review—Current Trading Prospects" and "Operating and Financial Review—Liquidity and Capital Resources—Indebtedness" on pages 88 and 122 of this Prospectus there has been no significant change in the financial or trading position of the Group since 30 September 2006, the date of the Company's latest interim accounts.

6 LITIGATION

From time to time, the Company is involved in litigation in the ordinary course of its business activities such as tax disputes, labour disputes, disputes with forwarding companies, etc. For instance, in December 2006, the Company filed a number of claims with the Arbitration Court of St. Petersburg Region and Arbitration Court of Khabarovsk Territory challenging the decisions of the Russian tax authorities on recovery from the Company of unpaid taxes, penalties and interest in the aggregate amount of approximately RUB 22 million. These court proceedings are pending. However, the Company believes that such ordinary course litigation is immaterial and is unlikely to affect Company's operating results or financial position significantly. Neither the Company nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or have had a significant effect on the financial position or profitability of the Group.

7 MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by any member of the Group and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this document:

7.1 Agreements in Connection with the Offering

7.1.1 *Underwriting Agreement*

The underwriting agreement dated 7 February 2007 between the Company, the Selling Shareholder and the Managers providing for, inter alia, the underwriting of the Offering, and described in "Subscription and Sale".

7.1.2 *Deposit Agreements*

The deposit agreement in respect of the Rule 144A GDRs and the deposit agreement in respect of the Regulation S GDRs, each dated 22 December 2006 between the Company and the Depositary. See "Terms and Conditions of the Global Depositary Receipts".

7.2 Financing and Indebtedness

7.2.1 *Facility Agreement with ABN AMRO Bank N.V.*

On 27 December 2006 Serebro Magadana and Serebro Territorii entered into a facility agreement with, *inter alia*, ABN AMRO Bank N.V. that provides for a term loan facility in the principal amount of $80 million. See "Operating and Financial Review—Liquidity and Capital Resources—Indebtedness".

7.2.2 *Other Financing Agreements*

See "Operating and Financial Review—Liquidity and Capital Resources—Indebtedness".

7.3 Related Party Transactions

See "Related Party Transactions".

7.4 Export Contracts for Sales of Future Production

7.4.1 *Silver Territory*

(a) On 23 December 2004, Silver Territory, CJSC Standard Bank ("SB") acting as a selling agent and Standard Bank entered into an export contract whereby Silver Territory agreed to sell and deliver via SB to Standard Bank all gold and silver produced by Silver Territory during the period from 1 January 2005 until 31 December 2009 in the total minimum amount of 2,656 kg of gold and 584,206 kg of silver. Pursuant to the terms of a novation agreement dated 27 December 2006, among Standard Bank, ABN, SB and Silver Territory, the rights and obligations of SB and Standard Bank under the export contract were transferred to Silver Territory and ABN, respectively. On 27 December 2006, ABN and Silver Territory entered into amended and restated export contract (the "ST Export Contract").

(b) Under the ST Export Contract, Silver Territory shall sell and deliver to ABN silver during the period commencing 1 January 2007 and ending 31 December 2008 with minimum amount of silver to be delivered in 2007 of 3.72 million ounces and in 2008 of 1.8 million ounces.

(c) Under the terms of the ST Export Contract the price of silver to be delivered during the period from 1 January 2007 until 31 December 2007 shall be a fixed price set at the London market two business days before the delivery date subject to a minimum purchase price in the range of U.S.$6.0–$7.0 per ounce and a maximum purchase price in the range of U.S.$7.25–U.S.$8.6 per ounce. The price of all other silver sale and purchase transactions shall be a fixed price set at the London market on the second business day prior to the respective delivery date, unless otherwise agreed by the parties. The price of silver may also be subject to a discount in accordance with the agreement of the parties.

7.4.2 *Magadan Silver*

(a) On 23 December 2004, Magadan Silver, CJSC Standard Bank ("SB") acting as a selling agent and Standard Bank entered into an export contract whereby Magadan

Silver agreed to sell and deliver via SB to Standard Bank all gold and silver produced by Magadan Silver during the period from 1 January 2005 until 31 December 2009 in the total minimum amount of 3,640 kg of gold and 1,661,125 kg of silver. Pursuant to the terms of a novation agreement dated 27 December 2006, among Standard Bank, ABN, SB and Magadan Silver, the rights and obligations of SB and Standard Bank under the export contract were transferred to Magadan Silver and ABN, respectively. On 27 December 2006, ABN and Magadan Silver entered into amended and restated export contract (the "SM Export Contract").

(b) Under the SM Export Contract, Magadan Silver shall sell and deliver to ABN silver during the period commencing 1 January 2007 and ending 31 December 2008 with minimum amount of silver to be delivered in 2007 of 10.2 million ounces and in 2008 of 7.2 million ounces.

(c) Under the terms of the SM Export Contract the price of silver to be delivered during the period from 1 January 2007 until 31 December 2007 shall be a fixed price set at the London market two business days before the delivery date subject to a minimum purchase price in the range of U.S.$6.0–$7.0 per ounce and a maximum purchase price in the range of U.S.$7.25–U.S.$8.6 per ounce. The price of all other silver sale and purchase transactions shall be a fixed price set at the London market on the second business day prior to the respective delivery date, unless otherwise agreed by the parties. The price of gold and silver may also be subject to a discount in accordance with the agreement of the parties.

7.5 Domestic Sales of Future Production

7.5.1 *Gazprombank Sales*

In connection with a bank loan facility provided to the Company by CJSC Gazprombank in July 2006, the Company undertook to sell to CJSC Gazprombank future production of gold and silver of the Company's two subsidiaries, Okhotsk Mining and Geological Company and Silver Territory, for which it agreed to act as a selling agent. The agency relationship between the Company and each of Okhotsk Mining and Geological Company and Silver Territory is governed by separate commission agreements. In particular, pursuant to the sales contracts with CJSC Gazprombank, the Company agreed:

(a) for 2006, to sell 77.8 thousand ounces of gold, for each 2007 and 2008, to sell 96.5 thousand ounces of gold and for 2009, to sell 32.2 thousand ounces of gold, respectively at a price calculated by reference to London fixing prices pursuant to a formula set out in the sales contract; and

(b) for each 2007 and 2008, to sell 803.8 thousand ounces of silver and for 2009, to sell 257.2 thousand ounces of silver, respectively at a price calculated by reference to London fixing prices pursuant to a formula set out in the sales contract.

7.5.2 *Sberbank Sales*

In connection with the General Framework Credit Line Agreements No. 3608 of 28 April 2006 and No. 3610 of 28 April 2006 entered into between Sberbank and Gold of Northern Urals and Okhotsk Mining and Geological Company respectively, Okhotsk Mining and Geological Company, Gold of Northern Urals, Silver Territory and Magadan Silver, the Company's subsidiaries, undertook to sell gold and silver to Sberbank. In particular, Okhotsk Mining and Geological Company, Gold of Northern Urals and Magadan Silver agreed to sell the following quantities of precious metals for the following years:

(a) for 2006, 2007 and 2008 to sell 66.8 thousand ounces, 133.5 thousand ounces and 133.5 thousand ounces of gold respectively at a price calculated by reference to London fixing prices pursuant to a formula set out in the sales contract; and

(b) for 2006, 2007 and 2008 to sell 3.2 million ounces, 6.4 million ounces and 6.4 million ounces of silver respectively at a price calculated by reference to London fixing prices pursuant to a formula set out in the sales contract.

8 AUTHORISATION

The issuance of the Securities was approved by the sole shareholder and the board of directors of the Company pursuant to resolutions adopted on 28 December 2006. The entry into the Underwriting Agreement was approved by the sole shareholder of the Company pursuant to a resolution adopted on 18 January 2007.

9 CONSENTS

9.1 SRK Consulting (UK) Ltd., whose registered office is at Windsor Court, 1-3 Windsor Place, Cardiff, CF10 3BX, Wales, United Kingdom, has given and has not withdrawn its written consent to the inclusion of its report set out in "Appendix 1: Mineral Expert's Report" and the references to its report and its name in the form and context in which they are respectively included and has authorised the contents of its report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004.

10 LISTING

Application has been made to the UK Listing Authority for the GDRs to be admitted to the Official List. Application has been made to the London Stock Exchange for the GDRs to be admitted to trading on the IOB. It is expected that admission of the GDRs to the Official List of the UK Listing Authority and admission to trading of the GDRs on the IOB of the London Stock Exchange will be granted on or around 12 February 2007, subject to the issue of the GDRs. It is expected that dealings in the GDRs will commence on 12 February 2007.

11 EXPENSE OF ADMISSION TO TRADING

The Company estimates its expenses related to admission of the GDRs to trading to be approximately U.S.$11,600,000.

12 CLEARING REFERENCE NUMBERS

The Regulation S GDRs have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 028168098. The International Securities Identification Number for the Regulation S GDRs is US7317892021. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg. The Rule 144A GDRs, with CUSIP number 731789103, have been accepted for clearance with The Depository Trust Company, whose address is 55 Water Street, New York, NY 10041, United States.

13 INTERESTS OF PERSONS INVOLVED IN THE ISSUE

Except for the indirect ownership interests in Polymetal of one the Company's directors, as disclosed on page 146 of the Prospectus, none of the directors of the Company has any interest in any contract, arrangement or transaction entered into by the Company which is or was unusual in its nature or conditions or significant in relation to the business of the Company and which was effected during the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

Save for the fees payable to the Joint Global Coordinators and the Depositary, so far as the Company is aware no person involved in the issue of the Securities has an interest that is material to the issue of the Securities.

14 DOCUMENTS FOR INSPECTION

So long as the GDRs are admitted to listing on the Official List and the rules of the Financial Services Authority shall so require, copies of the following documents (together with English translations, where applicable) may be inspected during normal business hours at the registered office of the Company:

14.1 the memorandum and articles of association of the Company;

14.2 the audited consolidated financial statements of the Company for the three years ended 31 December 2005, 2004 and 2003;

14.3 the unaudited consolidated interim financial statements of the Company for the nine months ended 30 September 2006 and 2005;

14.4 copies of the Mineral Expert's Report included at Appendix 1 of this Prospectus;

14.5 this Prospectus; and

14.6 the Deposit Agreements.

GLOSSARY OF SELECTED TERMS

"adit"	a horizontal mining shaft entrance into an underground pit. For underground operations in permafrost areas, mine entrances are adits;
"Ag"	the chemical symbol for silver;
"alluvial gold"	gold generally found in and near rivers, streams and lakes. Compare with "ore gold";
"alteration"	refers to physical or chemical change in a rock or mineral subsequent to its formation;
"assay"	a test used to determine the chemical content of a substance. A range of different methods and methodologies can be used to conduct assays;
"Au"	the chemical symbol for gold;
"average head grade"	the standard method (within the gold and silver mining industry) for reporting the quality of ore. The reported figure shows the number of grammes of precious metal (gold or silver) per tonne of mined ore;
"biox"	a state-of-the-art method for processing refractory ores. It is one of three methods, along with POX and roasting (which is prohibited for environmental reasons in Russia);
"borehole"	a deep and narrow hole that is drilled at an exploration site to test the mineral characteristics of rocks and ore bodies far beneath the Earth's surface. Borehole drilling is a key exploratory tool;
"brownfield"	development projects in which a minimal amount of prior development work had been done or development projects which had some level of pre-existing infrastructure;
"business interruption (BI) insurance"	BI insurance compensates metals and mining companies if production at their deposit(s) is halted for an extended period of time due to technical problems, strikes or other reasons; BI insurance is considered a common but expensive practice in the mining industry;
"bullion"	gold or silver bars or ingots;
"By-product"	a secondary precious metal that is produced during mining and processing at a deposit. A by-product offers additional economic benefits to the project, but is not necessary in order for the project to be economically efficient—in contrasts it with co-products;
"CapEx"	abbreviation for capital expenditures. Capital expenditures are additions to property, plant and equipment;
"carbon-in-pulp (CIP)"	CIP is a modified leaching process. After the ore has been exposed to a leaching solution, relatively large, activated carbon particles are introduced into the pulp solution. Following agitation, the precious metals bind to the carbon particles. Screening is then used to separate the pulp. Bound precious metals and carbon particles are then processed to isolate the precious metals;
"cash operating costs"	unless otherwise stated, cash operating costs are determined in accordance with the internationally recognised Gold Institute Standard ("GIS");
"clay content of ore"	this measures the relative percentage of clay in ore;
"concentrate"	products containing precious metals that are produced after flotation. At a later stage, concentrates are then processed into doré bars;
"co-product"	one of the two precious metals that are produced at a deposit. The presence of the second co-product allows for production at the mine to be economically efficient. A co-product is in contrast to a by-product;

"core"	sample of rock produced by diamond drilling;
"counter-current decantation"	a purification step in the processing chain. It is used to separate slurry (a fine waste product) from clean water, which is then reintroduced into the processing chain;
"covenants"	financial rules that are specified in international lending arrangements. Financial covenants are used as a proxy to measure current financial and operational health;
"crushing"	one of the early steps in ore processing during which ore is reduced to relatively coarse particles by stamps, crushers or rolls;
"crystal"	a mineral grain with faces developed which reflect the internal atomic structure;
"cut-off grade"	the figure that indicates the lowest grade of ore that it is economically feasible to mine at a deposit, based on current economic conditions. Cut-off grades can change based on fluctuations in macroeconomic factors (such as commodity prices) or technological changes. As cut-off grades change, the calculated resources and/or reserves at the site will also change;
"cuttings"	sample of rock produced by percussion and rotary drilling methods such as reverse circulation drilling;
"cyanidation"	a three-step process that extracts gold and silver from ore by diluting the ore either with sodium cyanide or potassium cyanide solution;
"cyanide leach"	the treatment of minerals and metals with a solution of cyanide;
"cyanide pellets"	the substance that is used for heap leaching. It is believed that these (imported) pellets are more environmentally friendly and economically efficient than other forms of cyanide (used in leaching processes);
"datamine"	a sophisticated package of mining-engineering and geological software that allows the in-house specialists to accurately model mining deposits and address a range of issues at the deposits;
"deep levels"	areas of an underground mine that are lower (deeper in the ground) than the level at which operations are currently being carried out. These areas are often considered highly prospective areas where active exploration programmes are carried out at the deposits' deep levels;
"deposit"	a coherent geological body such as a mineralised body;
"designed production capacity"	the maximum amount (measured in tonnes per annum or tpa) that a factory can produce based on a feasibility study;
"development projects"	this term is in contrast to exploration sites (an earlier stage) and operating deposits (a more advanced stage). A development project is a site where feasibility studies have been completed and a decision has been made to move forward with constructing an operating deposit, but the deposit has not yet come on line;
"diamond drilling"	rotary drilling using diamond-set or diamond-impregnated bits, to produce a solid continuous core sample rock;
"dilution"	ore with low-quality mineralisation (average head grade) that is removed during the mining process. There is no intention to mine the dilution, but given the technological processes, removal of the dilution is unavoidable;
"dip"	the angle at which layered rocks, foliation, a fault, or other planar structures, are inclined from the horizontal;
"disseminations"	descriptive of mineral grains which are scattered throughout the host rock;

"dore bars"	gold and silver bars containing a certain percentage content of precious metals (gold and/or silver);
"dragline"	a large piece of excavating equipment that is used in mines. A dragline is used to transport mined ore from one area of the deposit to another;
"drilling"	in mineral exploration, boring a hole into prospective ground to recover cuttings indicative of rock types and grades of mineralisation;
"drive"	a tunnel driven downwards from the surface to the orebody, compare adit;
"dyke"	a tabular igneous intrusion which cuts across the bedding or other planar structures in the rock enclosing or traversed by a mineral deposit;
"exploration"	activities associated with ascertaining the existence, location, extent or quality of mineralised material, including economic and technical evaluations of mineralised material;
"fault"	a break in rock strata continuity with strata remaining parallel but displaced relative to one another on either side; strata on opposite sides of a fault may be displaced vertically and/or laterally relative to their original position;
"feasibility study"	a study that is conducted to determine the opportunities and potential challenges of a development project, before development commences. The feasibility study focuses on determining if developing the project is economically feasible given current market conditions;
"feldspar (felspar)"	a very abundant group of rock-forming silicate minerals in which calcium, sodium and potassium are in combination with aluminium;
"filter press"	an extremely large machine that has a series of filters which remove (or filter) impurities from gold;
"fixing price"	the London Bullion Market fixing price, which represents prices obtained through matching orders for purchases and sales of metals on the London Bullion Market;
"flanks"	the areas around the edges (or contours) of existing deposits. Active exploration programmes are conducted at the flanks;
"floor level"	active operations are conducted at floor level depth in an underground mine. Floor level is generally reported in metres. For example, a 50 m floor level means that the operations are occurring at 50 m below the surface;
"flotation"	a mineral concentration process where the surface chemistry of the desired mineral particles is chemically modified such that they preferentially attach themselves to bubbles and float to the surface while the gangue minerals are chemically suppressed and do not float;
"flow chart"	the schematic design that shows all stages of ore processing. The number of steps in the flow chart (and thus, the processing) will depend on the type of mine, the characteristics of the ore and the processing technology;
"fly-in/fly-out"	a labour scheme in which workers are transported to a remote location, where they work for an extended period of time until the next group of workers is brought in to replace them. The time that the workers remain at the site is determined by labour laws and regulations of the Russian Federation;
"footwall"	a geological or mining term meaning the rock below a fault, or underlying a natural feature;

"g/t"	gramme per metric tonne;
"gangue"	ore is divided into two parts: the part that contains precious metals that it is economically viable to mine and the part that contains minerals of no value. Gangue is the term for this second part of the ore.
"geochemical"	a prospecting technique which measures the content of specified metals in soils and rocks and stream sediments; sampling defines anomalies for further testing;
"geophysical"	prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc) of rocks and define anomalies for further testing;
"good delivery"	a certificate that the LBMA provides to a refinery (following an extensive review) to certify that the refinery's products meet LBMA standards. Products that are delivered to the market from a refinery that does not have LBMA good delivery certification are subject to discounts;
"grade"	quantity of metal per unit weight of host rock;
"granitic"	a coarse grained igneous rock consisting largely of quartz and feldspar;
"gravity concentration"	a metallurgical process that separates metals from gangue using the specific gravity differential between the metal and the gangue;
"green-field"	a development project that is launched from the initial stages;
"grinding"	reducing mineralised rock to the consistency of fine sand by crushing and abrading in a rotating steel grinding mill;
"hanging wall"	the overlying side of an ore body, fault or mine working, such as the wall rock above an inclined vein or fault;
"heap"	a pile in which ore is stacked prior to undergoing the leaching process;
"heap leaching"	a leaching process in which the ore is placed in heaps (or piles), which are then treated with cyanide (as the leaching chemical) that is poured over the heap or transmitted inside the heap through a system of pipes;
"host rock"	the rock containing a mineral or an ore body;
"igneous"	a rock formed by the solidification of a mineral rich molten liquid which is intruded into sedimentary rock or erupted from a volcano;
"impoundment"	areas in which tailings from the processing plant are collected. Depending on design issues and other factors, impoundments can be upstream or downstream;
"inferred"	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability;
"indicated"	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed;

"infilling"	the process of replacing land—soil and rocks—that had previously been removed from a site;
"intercycle sand flotation (or gravitational flotation)"	common flotation is used for finely-milled ore (less than 0.1 mm). Gravitational flotation is used for rougher particles (those between 0.2 and 0.4 mm);
"intrusion"	rock formed by emplacement of molten magma to a high level below the surface, where it cooled and crystallised to form a solid rock;
"JORC"	Joint Ore Reserves Committee, common reference to the Australasian Code for Reporting of Mineral Resources and Ore Reserves;
"JORC Code"	the Australasian Code for Reporting of Mineral Resources and Ore Reserves which sets out the minimum standards, recommendations and guidelines for public reporting of exploration results, Mineral Resources and Ore Reserves in Australasia;
"jumbos"	mobile scaffolds or drills mounted on a mobile carriage used in tunnels;
"kg"	kilogramme;
"km"	kilometres;
"LBMA"	the London Bullion Market Association;
"labour productivity"	in the metals and mining industry, labour productivity is generally measured as the average number of ounces of gold or silver produced by employee per year;
"leaching"	an extraction process that is used to separate metal from ore, in which the solid (ore) is dissolved in a liquid. Generally, in the mining industry, the leaching solution is cyanide-based;
"leaching tank"	a large metal tank in which leaching processes are performed;
"life of mine (LoM)"	a figure that measures how long it will be economically feasible to continue active mining operations at a deposit. Life of mine figures may change over time;
"locomotive haulage"	an underground railway system that is used to transport workers, equipment and ore from one area of a mine to another;
"make-up water"	additional water required for mining and processing operation beyond that recycled from these operations;
"Measured"	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity;
"Measures"	conversion factors from metric units to U.S. units are provided below:

Metric Unit	US equivalent
tonne = 1 t	1.10231 tonnes
1 gramme = 1 g	0.03215 ounces
1 gramme per tonne = 1 g/t	0.02917 ounces per tonne
1 kilogramme per tonne = 1 kg/t	29.16642 ounces per tonne
1 kilometre = 1 km	0.621371 miles
1 metre = 1 m	3.28084 feet
1 centimetre = 1 cm	0.3937 inches
1 millimetre = 1 mm	0.03937 inches

"Merrill Crowe process"	a process for removing gold from a cyanide-based solution using zinc precipitation;
"metallurgical"	describing the science concerned with the extraction, production, purification and properties of metals and their applications;
"mineable"	that portion of a mineralised deposit for which extraction is technically and economically feasible;
"mineral"	a natural, inorganic, homogeneous material that can be expressed by a chemical formula;
"mineral deposit"	is a mineralised body which has been delineated by appropriate drilling and/or underground sampling to support a sufficient tonnage and average grade of metal(s);
"Mineral Resource/resource"	a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form that there are reasonable prospects for eventual economic extraction;
"mineralised material"	a mineralised body which has been delineated by appropriately spaced drilling and/or underground sampling to support a sufficient tonnage and average grade of metals to warrant further exploration. A deposit of mineralised material does not qualify as a reserve until a comprehensive evaluation based upon unit cost, grade, recoveries, and other material factors conclude legal and economic feasibility;
"mineralisation"	a process of formation and concentration of elements and their chemical compounds within a mass or body of rock;
"open pit"	mining in which the ore is extracted from a surface pit. The geometry of the pit may vary with the characteristics of the orebody;
"ore"	mineral-bearing rock that contains one or more minerals, at least one of which can be mined and treated profitably under current or immediately foreseeable economic conditions;
"orebody"	mining term to define that volume of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions;
"ore gold"	ore gold is gold that is found in ores and is later extracted from the ore body. Compare with "alluvial gold";
"ore grade"	the average weight of the valuable metal or mineral contained in a specific weight of ore;
"Ore Reserve"	the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting material and allowances for losses which may occur when the mineral is mined;
"ounce (oz)"	troy ounce (31.103 gramme, or 1.097 Avoirdupois ounce);
"oxidised ore"	ore that has been oxidised through a natural process and which generally requires special processing techniques to extract precious metals. Compare with "primary ore";
"pit"	the area at a deposit where mining operations are carried out. In general, most deposits have more than one pit;
"placer gold"	gold occurring in coarse grains or flakes obtainable by washing the sand or gravel in which it is found. Generally alluvial gold;
"POX"	an industry abbreviation for pressurised oxidation. POX is an established method for processing refractory ores;
"precious metal"	gold, silver and platinum group metals;

"primary ore"	primary ore is unoxidised ores that usually requires less complicated processing techniques than those required for the processing of oxidised ore. Compare with "oxidised ore";
"primary producer"	mining operation producing a precious metal, such as silver, as the principal product of its mines rather than as a by-product from the production of other metals;
"proved and probable"	the two sub-categories into which JORC standards divide reserves. Proved indicates a higher level of certainty about the measurements, whereas probable is less certain;
"pulp"	pulverised ore mixed with water;
"quartz"	a mineral composed of silicon dioxide (SiO_2);
"reagent"	a chemical that is used to precipitate a reaction in another substance;
"recovery rate"	the recovery rate, expressed as a percentage, indicates the amount of precious metals that is able to be recovered from ore;
"refractory lining"	a heat-resistant, cement-like substance that is used to line furnaces and other industrial-equipment that is subject to high temperatures;
"refractory ores"	ores with certain physical and chemical properties that make them difficult to process.
"rock"	mineral matter of various compositions;
"SAG Mill"	a semiautogenous mill utilised to grind run-of-mine rock or primary crusher discharge into a finished size ready for processing or an immediate size ready for final grinding in a ball mill;
"sampling"	taking small pieces of ore at intervals along exposed mineralisation for assay (to determine the mineral content);
"satellite deposit"	a relatively small deposit (measured in terms of its reserves and resources) that is located in close proximity to a larger deposit and utilises some of the infrastructure of the larger deposit;
"sediment"	formed of particles after transport by water, wind or ice;
"sedimentary rock"	rock formed from solid particles, whether mineral or organic, which has been moved from its position of origin and redeposited;
"shaft"	a passageway in an underground mine that can be used to transport workers, machinery and ore;
"specific gravity"	the density of a substance relative to water;
"spot price"	the prices that are quoted for the immediate sale and delivery of a commodity. Companies may either sell their precious metals at spot price(s) or through hedge contracts (with prices that have been determined in advance);
"stope"	an underground opening in a mine from which ore has been or is being extracted;
"strike"	the direction or bearing of a bed or layer of rock in the horizontal plane;
"strike length"	distance along strike (at right angles to dip);
"stripping"	a process used in open-pit mining. In stripping, surface layers are removed to gain access to ore containing precious metals;
"stripping ratio"	the ratio of waste rock to ore in an open-pit mine;
"structure"	the general disposition, attitude, arrangement or relative positions of rock;

"sub-vertical"	close to vertical;
"Subsoil Law"	the relevant law of the Russian Federation that governs all mining and exploration activities in the country;
"substandard quality"	products delivered to the market from a refinery that does not have LBMA good delievery certification;
"sulphide ore"	ore characterised by the inclusion of metal in the crystal structure of a sulphide mineral. The type of ore is often refractory;
"tailing ponds"	the areas at a mining site where tailings are stored. Tailing ponds are one of the principal areas of environmental concern at an operating site, because of concerns about chemicals leaching into ground water;
"tailings"	the waste products in mining that remain after all minerals economically-viable to mine have been extracted from ore;
"tonnage"	quantities where the tonne is an appropriate unit of measure. Typically used to measure reserves of gold-bearing material in situ or quantities of ore and waste material mined, transported or milled;
"tpa"	tonnes per annum;
"trenching"	the process of using heavy machinery to cut a series of trenches;
"turnkey design"	a term for a designed project that requires no significant modification or changes post-design and prior to its initial usage;
"underground"	the process by which ore is mined underground;
"vein"	an area within a rock body that contains minerals, including gold and silver;
"vein zones"	areas in a rock formation with an extensive collection of clustered veins. Generally, areas with vein zones are considered highly prospective for future mining operations; and
"waste"	rock lacking or containing an uneconomic quantity of the target elements.

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INDEX TO FINANCIAL STATEMENTS

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JOINT-STOCK COMPANY “ISPA “POLYMETAL”
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT ACCOUNTANT’S REVIEW REPORT

SEPTEMBER 30, 2006

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Joint-Stock Company "ISPA "Polymetal".

We have reviewed the accompanying interim consolidated balance sheet of Joint-Stock Company "ISPA "Polymetal" and its subsidiaries (hereinafter "the Company") as of September 30, 2006, and the related interim consolidated statements of income for each of the nine-month periods ended September 30, 2006 and 2005, and the interim consolidated statements of cash flows for the nine-month periods ended September 30, 2006 and 2005, and the interim consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

ZAO PricewaterhouseCoopers Audit.

December 22, 2006

JSC "ISPA "POLYMETAL"

INTERIM CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands of U.S. Dollars, except as indicated)

	Notes	At September 30, 2006	At December 31, 2005
Assets			
Cash and cash equivalents	3	3,328	18,925
Prepayments to suppliers	4	28,726	10,312
Related party receivables and prepayments	5	58	5,323
Short-term loans to related parties	6	1,952	13,867
Short-term loans to third parties		411	431
Inventories	7	131,065	92,137
Short-term VAT receivable	10	38,727	20,288
Short-term deferred tax asset	22	735	955
Other current assets	9	14,660	6,420
Total current assets		**219,662**	**168,658**
Goodwill		29,502	—
Property, plant and equipment, net	8	405,175	314,827
Long-term loans to related parties		493	—
Long-term loans to third parties		65	—
Long-term VAT receivable	10	11,341	23,222
Long-term deferred tax asset	22	5,390	4,443
Total assets		**671,628**	**511,150**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	11	36,995	26,538
Accounts payable—related parties	12	—	2,263
Short-term debt and current portion of long-term debt	13	234,703	184,786
Short-term debt—related parties	14	63,000	—
Tax payable		4,437	7,824
Deferred tax liability	22	12,758	8,910
Current portion of capital lease liabilities	17	8,106	11,020
Total current liabilities		**359,999**	**241,341**
Long-term capital lease liabilities	17	3,201	8,932
Long-term debt	15	86,200	—
Long-term debt—related parties	16	919	100,000
Deferred tax liability	22	37,427	23,224
Reclamation and mine closure obligation	18	5,249	4,915
Total liabilities		**492,995**	**378,412**
Minority interest		**17**	**16,937**
Commitments and contingent liabilities	25	—	—
Shareholders' equity			
Share capital (2,400,000,000 ordinary shares authorized at September 30, 2006 and December 31, 2005, par value Rubles 0.2 per share; 275,000,000 ordinary shares issued and outstanding at September 30, 2006 and December 31, 2005)*	19	6,397	6,397
Additional paid-in capital		56,710	56,710
Accumulated other comprehensive income (loss)		8,971	(4,299)
Retained earnings		106,538	56,993
Total shareholders' equity		**178,616**	**115,801**
Total liabilities and shareholders' equity		**671,628**	**511,150**

* Given the effect of stock split effective December 7, 2006 (Note 19).

Approved on behalf of the Board of Directors on December 22, 2006.

/s/ Nesis V. N.	/s/ Cherkashin S. A.
Nesis V. N. General Director	Cherkashin S. A. Finance Director

The accompanying notes are an integral part of these interim consolidated financial statements.

JSC "ISPA "POLYMETAL"

INTERIM CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands of U.S. Dollars, except as indicated)

	Notes	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenues	20	223,476	172,480
Cost of sales	21	(117,989)	(94,321)
Income from mining operations		**105,487**	**78,159**
General, administrative and selling expenses		(20,977)	(15,862)
Other expenses, net		(7,009)	(8,998)
Operating income		**77,501**	**53,299**
Interest expense		(17,808)	(18,485)
Capital lease finance costs		(1,645)	(4,314)
Exchange gains (losses), net		17,932	(4,629)
Income from continuing operations before income tax and minority interest		**75,980**	**25,871**
Income tax expense	22	(20,175)	(7,331)
Income from continuing operations before minority interest		**55,805**	**18,540**
Minority interest		**(6,260)**	**(5,856)**
Income from continuing operations		**49,545**	**12,684**
Discontinued operations, net of income tax:			
Losses from operations of disposed subsidiaries		—	(691)
Gain on disposal of subsidiaries		—	3,585
Income from discontinued operations		—	**2,894**
Net income		**49,545**	**15,578**
Basic and diluted earnings per share (expressed in U.S. Dollars)	19		
Income from continuing operations*		0.18	0.046
Income from discontinued operations*		—	0.011
Net income*		0.18	0.057
Average number of shares outstanding*		275,000,000	275,000,000

* Given the effect of stock split effective December 7, 2006 (Note 19).

The accompanying notes are an integral part of these interim consolidated financial statements.

JSC "ISPA "POLYMETAL"

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands of U.S. Dollars, except as indicated)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Cash flows from operating activities		
Net income	49,545	15,578
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and depletion	19,585	13,496
Accretion of reclamation and mine closure obligation	126	413
Gain on disposal of subsidiaries	—	(3,585)
Capital lease finance costs	1,645	4,314
Deferred income tax expense (benefit)	4,633	65
Loss on disposal of property, plant and equipment	1,634	5,066
Minority interest	6,260	5,856
Exchange (gains) losses, net	(17,932)	4,629
Changes in operating working capital, excluding cash and debt:		
Prepayments to suppliers	(17,644)	(10,689)
Related party receivables and prepayments	5,663	(16,867)
Inventories	(28,558)	(4,277)
VAT receivable	(3,126)	6,495
Other current assets	(7,018)	14,310
Accounts payable and accrued liabilities	(2,187)	(6,043)
Tax payable	(3,973)	(2,408)
Net cash provided by operating activities	**8,653**	**26,353**
Cash flows from investing activities		
Additions to property, plant and equipment	(31,734)	(13,403)
Proceeds from PP&E	986	4,643
Acquisitions of subsidiaries and minorities interests	(91,846)	—
Proceeds from disposal of interest in consolidated subsidiaries	—	983
Proceeds from sale of investments	—	7,035
Loans made to third parties	(65)	—
Repayment of loans made to third parties	463	61,834
Loans made to related parties	(2,248)	(35,986)
Repayment of loans made to related parties	14,707	18,149
Net cash (used in) provided by investing activities	**(109,737)**	**43,255**
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	366,494	29,773
Repayment of short-term loans and borrowings	(277,373)	(11,875)
Proceeds from long-term debt	100,000	—
Repayment of long-term debt	(30,225)	(12,148)
Proceeds from short-term loans and borrowings—related parties	63,000	40,461
Repayment of short-term loans and borrowings—related parties	—	(18,464)
Proceeds from long-term debt—related parties	919	16,413
Repayment of long-term debt—related parties	(100,000)	(87,966)
Redemption of bonds	(26,962)	—
Lease payments	(11,781)	(21,503)
Net cash provided by (used in) financing activities	**84,072**	**(65,309)**
Exchange effects on cash balances	1,415	(36)
Net increase (decrease) in cash and equivalents	**(15,597)**	**4,263**
Cash and cash equivalents, beginning of the year	18,925	1,353
Cash and cash equivalents, end of the year	**3,328**	**5,616**
Supplementary cash flow information		
Interest paid	17,940	17,660
Income taxes paid	21,190	7,528
Non-cash additions to property, plant and equipment—capital lease	—	8,738

The accompanying notes are an integral part of these interim consolidated financial statements.

JSC "ISPA "POLYMETAL"

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands of U.S. Dollars, except as indicated)

	Number of shares*	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at December 31, 2005	**275,000,000**	**6,397**	**56,710**	**(4,299)**	**56,993**	**115,801**
Comprehensive income:						
Net income		—	—	—	49,545	49,545
Currency translation adjustment		—	—	13,270	—	13,270
Total comprehensive income						**62,815**
Balance at September 30, 2006	**275,000,000**	**6,397**	**56,710**	**8,971**	**106,538**	**178,616**

* Given the effect of stock split effective December 7, 2006 (Note 19).

The accompanying notes are an integral part of these interim consolidated financial statements.

(In thousands of U.S. Dollars, except as indicated)

Note 1. Background

Description of Business

Open joint stock company "Interregional Research and Production Association "Polymetal" (JSC "ISPA "Polymetal" or "the Company") was incorporated on March 12, 1998 in the Russian Federation. The Company is engaged in gold and silver mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Company has acquired a number of gold and silver mining properties, which require significant investment to bring to commercial production. The Company owns producing assets at Vorontsovkoye and Lunnoye fields, Dukat and Khakandjinskoye mines.

The Company majority shareholder prior to November 2005 was ZAO ICT, which, together with its subsidiaries formed the ICT group. In November 2005 the ultimate beneficial owners of the Company disposed of their interests in ZAO ICT to OAO NAFTA MOSKVA. JSC "ISPA "Polymetal"'s consolidated financial statements are based on the historical cost principle, and accordingly they do not contain any adjustments under the purchase method related to the acquisition of the 99.99% interest by OAO NAFTA MOSKVA. As at January 1, 2006 ZAO ICT was de-merged into ICT and Vest and 99.99% of shares of JSC "ISPA "Polymetal" were transferred to ZAO Vest. Subsequently OAO NAFTA MOSKVA disposed all its shares in ZAO ICT. In August 2006, ZAO Vest was acquired by NAFTA MOSKVA (CYPRUS) LIMITED. In November 2006, after liquidation of ZAO Vest and acquisition of 0.01% of the Company's shares from a related party, NAFTA MOSKVA (CYPRUS) LIMITED became a sole shareholder of the Company.

Mr V. N. Nesis, the General Director of JSC "ISPA "Polymetal", has close relationship with the owner of ZAO ICT and, accordingly, transactions with companies of ICT group continue to be disclosed in these financial statements as related party transactions.

The Company's ability to meet its obligations and maintain operations is contingent upon continuing support from OAO NAFTA MOSKVA, the successful development and future profitable production of its mining assets, its mining licenses being maintained in good standing, fair use of such licenses and the political, economic and legislative stability in the Russian Federation.

Composition of the Group

ISPA "Polymetal" and its subsidiaries are collectively referred to as "the Group".

The structure of the Group as at September 30, 2006 includes the following significant mining subsidiaries:

Name of subsidiary	Field	Voting interest, %	Effective ownership interest, %
ZAO Zoloto Severnogo Urala	Vorontsovkoye	99.97	99.97
OAO Okhotskaya GGC	Khakandjinskoye, Urjevskoe	100.00	100.00
ZAO Serebro Territorii	Lunnoe	100.00	100.00
ZAO Serebro Magadana	Dukat	100.00	100.00

Changes in the Group structure and voting and ownership interests in major production subsidiaries as at September 30, 2006 and 2005 are discussed in Notes 23, 24 and 26.

The company holds the following significant mining licenses: Vorontsovskoye field (Sverdlovsk region), Lunnoye field and Dukat field (Magadan region), Khakandjinskoye field (Khabarovsk region), Urjevskoe field (Khabarovsk region).

In March 2005, JSC "ISPA "Polymetal" incorporated a subsidiary OJSC "Trade House Polymetal" whose core activity is to provide production entities with fixed assets through leasing, materials and inventories.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

These interim consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company and its subsidiaries domiciled in the Russian Federation maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with U.S. GAAP.

Segment Reporting

The Group management manages its business by operating segment. The Group has three operating segments. All these segments meet the aggregation criteria as required by FAS 131 and, therefore, form one reportable segment.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, including discussion and disclosure of contingent liabilities. Significant areas requiring the use of management estimates relate to determination of mineral reserves, mine closure liabilities, reclamation and environmental obligations, impairment of assets and valuation allowances for deferred tax assets. Actual results could differ from such estimates.

Reporting and Functional Currency

The Russian Ruble ("Ruble") is considered to be the functional currency of the Company and its subsidiaries domiciled in the Russian Federation. Most of the Company's sales revenues and purchases and certain financing agreements are settled in Russian Rubles. The U.S. Dollar is the reporting currency selected by the Group for purposes of financial reporting in accordance with U.S. GAAP.

The transactions and balances in the accompanying financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*. Consequently, assets and liabilities are translated at period closing exchange rates. Revenues, expenses, gains and losses have been translated using historical or period average exchange rates as appropriate. Translation differences resulting from the use of these exchange rates have been included as a separate component of stockholders equity.

The exchange rates as at September 30, 2006 and December 31, 2005 were Ruble 26.78 and Ruble 28.78 for U.S. Dollar 1.00, respectively. Average exchange rates for nine-month periods ended September 30, 2006 and 2005 were Ruble 27.34 and Ruble 28.17 for 1.00 U.S. Dollar, respectively.

Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at balance sheet date, are translated into the Russian Ruble at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognized in the consolidated statement of income.

Principles of Consolidation

The consolidated financial statements include the results of operations of all entities in which the Group directly or indirectly controls more than 50 percent of voting power and all variable interest entities for which the Group is determined to be the primary beneficiary.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Long-term investments over which the Company does not exercise significant influence are accounted for at cost and adjusted for estimated impairment.

All intercompany transactions and balances between Group companies have been eliminated.

Variable Interest Entities are consolidated if the Group is the primary beneficiary in accordance with FASB Interpretation No. 46(R) "*Consolidation of Variable Interest Entities*" ("FIN 46(R)").

Purchase Price Allocation (including Goodwill)

Business acquisitions are accounted for using the purchase method of accounting. Under this method, the purchase price is allocated to the assets acquired and liabilities assumed based on the fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is goodwill. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require a high degree of judgment and include estimates of mineral reserves acquired, future gold prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in purchase price allocation. Future net earnings can be affected as a result of changes in future depreciation and depletion, asset impairment or goodwill impairment.

In accordance with provisions of SFAS 142, goodwill is not amortized but is reviewed annually for impairment.

Cash and Cash Equivalents

Cash and cash equivalents include cash and other highly liquid investments that are readily convertible to known amounts of cash and with an original maturity of three months or less at the date of purchase.

Inventories

Raw materials, spare parts, supplies, ore and doré are valued at lower of cost and net realizable value, using the weighted average cost method.

Property, Plant and Equipment

Property, plant and equipment consist of assets directly related to mining and processing of ore and include costs of development of the mining properties, the costs of acquisition or construction of property, plant and equipment and capitalized interest. Expenditures for major improvements and renewals are capitalized. The cost of maintenance, repairs and replacement of minor items of property is charged to income as incurred. Interest directly attributable to the acquisition or construction of property, plant and equipment is capitalized as a cost of the asset up to the time the asset is put into use. All other interest is expensed as incurred. Gains and losses on the disposal of assets are included in the statement of income in the period of disposal.

Mineral exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs incurred in exploration and development of such property, including costs to further delineate the ore body and remove any overburden to initially expose the ore body are capitalized.

Depreciation and depletion of PPE related to mining are computed using the units-of-production method based on the actual production for the year compared with total estimated proven and probable reserves (in thousands of tons of gold bearing ore).

Leased property, plant and equipment meeting the criteria of capital lease is capitalized; valued at the lower of asset purchase price and net present value of lease payments. The corresponding part of lease

Note 2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

payments is recorded as a liability. Amortization of capitalized leased assets related to mining is computed using the units-of-production method.

Property, plant and equipment are assessed for possible impairment in accordance with SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined from estimated discounted future net cash flows.

Deferred Development Expenditures

In general, mining costs are charged to operations as incurred. However, some of the Company's deposits require significant capital expenditures, such as tunneling in preparation of a new mining area. These expenditures are charged to cost of production in the proportion that the amount of ore extracted bears to the amount estimated to be accessed by the preparation work.

Unamortized balances of capitalized development expenditure are expensed when the area that they cover is depleted, or deemed to be depleted by management.

Reclamation and Mine Closure

The Company accounts for reclamation, site restoration and closure obligations based on the provisions of SFAS No. 143 *Accounting for Asset Retirement Obligations*. When the liability is initially recorded, the Company capitalizes the cost by increasing the carrying amount of the related long lived asset. Over time, the liability is accreted to its present value each period, and capitalized cost is amortized over the useful life of the related asset.

Revenue Recognition

The Company recognizes revenue upon the delivery of refined gold and silver to customers.

Income Taxes

Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with SFAS No. 109 *Accounting for Income Taxes*. Deferred income tax assets and liabilities are measured using enacted tax rates for periods in which these temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that the assets will not be realized.

Contributions to Local Authorities

Infrastructure expenditure, which is required to be contributed to the local authorities as a condition of mineral license agreements, is charged to statement of income as incurred.

Comprehensive Income

SFAS No. 130 *Reporting Comprehensive Income* requires disclosure of all changes in equity during a period except those resulting from investments by, and distributions to the Company's shareholders.

Pension Obligations

The Company pays mandatory contributions to the state social funds, which are expensed as incurred.

Accounting Changes

As of January 1, 2006 the Group adopted Statement of Financial Accounting Standard No. 151, *Inventory Costs—an amendment of ARB No. 43, Chapter 4*, ("SFAS No. 151") which clarifies the accounting for

Note 2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

abnormal amounts of idle facility expense, freight, handling costs and wasted material as current period costs. It also requires that allocations of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS No. 151 did not have any material impact on the Group's financial statements.

As of January 1, 2006 the Group adopted Emerging Issues Task Force Consensus 04-06 ("EITF 04-06"), *Accounting for Stripping Costs Incurred during the Production Stage in the Mining Industry*. EITF 04-06 concludes that stripping costs incurred during the production phase of the mine are variable production costs that should be included in the costs of the inventory produced during the period that stripping costs are incurred. The Consensus does not change the accounting for stripping costs incurred during the pre-production phase of a mine. The adoption of this pronouncement did not have any material impact on the Group's financial statements.

Recently Issued Accounting Standards

In June 2006, the FASB issued FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in periods, disclosure, and transition. FIN 48 is effective in fiscal years beginning after December 15, 2006. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption, with the cumulative effect adjustment reported as an adjustment to the opening balance of retained earnings. Management is currently evaluating the potential impact that the adoption of FIN 48 will have on the Group's consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Group is currently evaluating the impact that the adoption of SFAS No. 157 will have on its consolidated financial statements.

Financial Instruments

Fair value. A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that imposes an obligation to deliver or right to receive cash or another financial instrument. The fair values of financial instruments are determined with reference to various market information and other valuation methods, as considered appropriate. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein may differ from the amounts the Company could receive in current market exchanges.

The carrying values of cash and cash equivalents, other short-term investments, accounts and notes receivable, accounts and notes payable and accrued liabilities, taxes payable and short-term debt, approximate their fair values because of the short maturities of these instruments.

Long-term investments in unquoted companies are valued at their historical cost adjusted for impairment, as appropriate. Management believes that the carrying values of long-term investments and long-term debt approximate their fair values.

Credit risks. A significant portion of the Company's accounts receivable is VAT receivable from local tax bodies (Note 10). Management believes there is no significant risk of loss to the Company associated with recoverability of these balances.

Concentration risks. Management believes that no significant concentration risk was associated with any cash and cash equivalents, accounts receivable and prepayments balances at September 30, 2006.

(In thousands of U.S. Dollars, except as indicated)

Note 3. Cash and Cash Equivalents

The Company maintains both Russian Ruble and U.S. Dollar bank accounts.

	September 30, 2006	December 31, 2005
Denominated in U.S. Dollars	1,125	2,887
Denominated in Russian Rubles	2,203	16,038
Total cash and cash equivalents	**3,328**	**18,925**

Note 4. Prepayments to Suppliers

In late 2005 the Group changed its procurement arrangements, dealing directly with third party suppliers and not as previously through related company Geotekhservice (see also Note 5 below).

Note 5. Related Party Receivables and Prepayments

	September 30, 2006	December 31, 2005
Prepayments to Geotekhservice	—	5,018
Prepayments to Accord-Invest	58	—
Other related party receivables and prepayments	—	305
Total related party receivables and prepayments	**58**	**5,323**

Geotekhservice is a subsidiary of ZAO ICT (Note 1).

At September 30, 2006 Accord-Invest was under common control with JSC "ISPA "Polymetal" through the parent company (Note 1).

Note 6. Short-Term Loans to Related Parties

	Interest rate %	September 30, 2006	Interest rate %	December 31, 2005
Loan to ZAO ICT (RR) Note 1	—	—	11.5%	13,687
Loans to Accord-Invest (RR) Note 5	10.5%	1,952	—	—
Other short-term loans to related parties (RR)	—	—	0-1%	180
Total short-term loans to related parties		**1,952**		**13,867**

Note 7. Inventories

	September 30, 2006	December 31, 2005
Raw materials, spare parts and supplies	56,713	44,361
Ore	35,502	21,361
Work in progress	25,251	17,196
Doré	5,521	2,544
Gold and silver in bullion	8,078	6,675
Total inventories	**131,065**	**92,137**

(In thousands of U.S. Dollars, except as indicated)

Note 8. Property, Plant and Equipment, net

	September 30, 2006	December 31, 2005
Buildings & underground workings	162,292	140,205
Machinery & equipment	154,814	111,005
Transport & other	32,859	27,380
Mineral rights	129,783	87,495
Construction in progress	19,441	8,718
Cost	**499,189**	**374,803**
Accumulated depreciation and depletion	**(94,014)**	**(59,976)**
Total property, plant and equipment, net	**405,175**	**314,827**

At September 30, 2006, capital leases included within property, plant and equipment total U.S. Dollar 78,002 (of which Machinery & Equipment was U.S. Dollar 61,138 and Transport & other was U.S. Dollar 16,863) (as at December 31, 2005: U.S. Dollar 71,597, of which Machinery & Equipment was U.S. Dollar 56,118 and Transport & other was U.S. Dollar 15,479).

At September 30, 2006, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar 17,930 (of which Machinery & Equipment was U.S. Dollar 14,054 and Transport & other was U.S. Dollar 3,876), as at December 31, 2005: U.S. Dollar 14,548 (of which U.S. Dollar 11,403 was attributed to Machinery & Equipment, and U.S. Dollar 3,145 to Transport & other).

Included within Other property, plant and equipment were long-term deferred exploration expenditures of U.S. Dollar 8,676 and U.S. Dollar 2,617 at September 30, 2006 and December 31, 2005, respectively.

Mineral rights of the Group comprised of mineral rights acquired by the Group upon purchase of subsidiaries. Accumulated depreciation of mineral rights was U.S. Dollar 7,706 and U.S. Dollar 1,782 at September 30, 2006 and December 31, 2005, respectively.

Note 9. Other Current Assets

	September 30, 2006	December 31, 2005
Deferred development expenditure	1,251	1,245
Tax receivable	7,937	2,890
Other debtors	2,135	551
Other current assets	3,337	1,734
Total other current assets	**14,660**	**6,420**

Note 10. VAT Receivable

	September 30, 2006	December 31, 2005
Short-term VAT receivable	38,727	20,288
Long-term VAT receivable	11,341	23,222

Long-term VAT receivable at September 30, 2006 and December 31, 2005 primarily represents VAT balances resulting from capital expenditures which are not expected to be recovered within twelve months of the respective balance sheet dates. Management believes that these balances are fully recoverable from the tax authorities when the respective capital assets qualify as put into operation for VAT purposes.

(In thousands of U.S. Dollars, except as indicated)

Note 11. Accounts Payable and Accrued Liabilities

	September 30, 2006	December 31, 2005
P.A.S. Silver (Cyprus) Limited (Note 23)	12,317	12,317
ZAO Shemur	1,689	—
OOO Modern Machinery Co	1,780	—
OOO Tosmar	1,149	—
Trade accounts payable	12,464	6,873
Accrued interest payable to third parties	1,409	2,294
Other accounts payable	6,187	5,054
Total accounts payable and accrued liabilities	**36,995**	**26,538**

Note 12. Accounts Payable—Related Parties

	September 30, 2006	December 31, 2005
Accounts payable to Geotekhservice	—	2,029
Accounts payable to Press-Invest	—	231
Trade accounts payable	—	3
Total accounts payable—related parties	**—**	**2,263**

As at September 30, 2005 Press-Invest was a subsidiary of ZAO ICT (Note 1).

Note 13. Short-term Debt and Current Portion of Long-term Debt

	Interest rate %	September 30, 2006	Interest rate %	December 31, 2005
Sberbank (U.S. Dollar)	7.6-8%	110,000		—
Nikoil Bank (U.S. Dollar)		—	9-9.5%	20,410
MDM-Bank (U.S. Dollar)		—	10%	25,000
Uralsib (U.S. Dollar)	9%	40,000		—
Alfa Bank (U.S. Dollar)	8.3%	10,000		—
Khanti-Mansiiski Bank (RR)		—	10%	24,841
Investros (RR)	0%	2,650		—
Current portion of long-term debt		72,053		114,535
Total short-term debt and current portion of long-term debt		**234,703**		**184,786**

Short-term debts are repayable as follows:

	September 30, 2006
December, 2006	50,508
July, 2007	112,142
	162,650
Current portion of Long-term debt	72,053
	234,703

All short-term debt is unsecured.

(In thousands of U.S. Dollars, except as indicated)

Note 14. Short-term Debt—Related Parties

	Interest rate %	September 30, 2006	Interest rate %	December 31, 2005
Barylite Services Limited (U.S. Dollar)	3%	63,000		—
Total short-term debt—related parties		**63,000**		**—**

At September 30, 2006 Barylite Services Limited was under common control with JSC "ISPA "Polymetal" through the parent company. As at December 22, 2006 the debt was fully repaid.

Note 15. Long-term Debt

	Interest rate %	September 30, 2006	Interest rate %	December 31, 2005
Standard Bank London (U.S. Dollar)	LIBOR + 3.5-4.0%	54,847	LIBOR + 3.5-4.0%	85,071
Gazprom Bank (U.S. Dollar)	8%	100,000		—
Magadan Region Administration (U.S. Dollar)	6%	3,406	6%	3,406
Bonds (RR)		—	17-19%	26,058
Less current portion of long-term debt		(72,053)		(114,535)
Total long-term debt		**86,200**		**—**

Long-term debt is repayable as follows:

	September 30, 2006
1 to 2 years	54,000
2 to 3 years	32,200
3 to 4 years	—
	86,200

In 2004, the Company received a long-term loan totaling U.S. Dollar 105,000 from Standard Bank London for the purpose of refinancing its debts and development of current operations. The loan was repayable in monthly installments commencing April 1, 2005 through 2009. This loan agreement contains certain financial and non-financial covenants to prevent the loan facility being withdrawn.

As at September 30, 2006 and December 31, 2005 certain financial covenants were breached, and no waiver has been received, accordingly, the total debt to Standard Bank London was classified as short-term and included into current portion of long-term debt (Note 13). The loan was repaid in full amount in December 2006.

As at September 30, 2006 ISPA Polymetal pledged 23,443 shares (97.11% of the issued and outstanding share capital) of ZAO Serebro Territorii, 85 shares (85% of the issued and outstanding share capital) of ZAO GC Dukat and 5,400 shares (80% of the issued and outstanding share capital) of ZAO Serebro Magadana as collateral under the Standard Bank London facility. The aggregate carrying value of

(In thousands of U.S. Dollars, except as indicated)

Note 15. Long-term Debt (Continued)

property, plant and equipment belonging to the subsidiaries whose shares were pledged was U.S. Dollar 146,304 and U.S. Dollar 122,842 at September 30, 2006 and December 31 2005, respectively. This collateral was not released and remains valid until termination of sales contract with Standard Bank London (Note 25).

The loan from the Magadan Regional Administration was guaranteed by Nomos-Bank in the amount of U.S. Dollar 5,856.

The bonds were redeemed in full in March 2006.

Note 16. Long-term Debt—Related Parties

	Interest rate %	September 30, 2006	Interest rate %	December 31, 2005
Nomos-Bank (U.S. Dollar)		—	9%	100,000
Accord-Invest (RR)	0%	919		—
Total long-term debt—related parties		**919**		**100,000**

Nomos-Bank is an equity investee of ZAO ICT (Note 1).

Initial maturity date of Nomos-Bank loan was December 20, 2007, however, this loan was earlier repaid.

Debt to Accord-Invest will be repaid in September 2008.

Note 17. Capital Lease Liabilities

The Group entered into certain Russian Ruble denominated leases for machinery, equipment and transport vehicles. The third party lessors generally provide payment of taxes, maintenance and certain other operating costs related to the leased property. At September 30, 2006 and December 31, 2005, such leases have been treated as capital leases, the total present value of lease obligations were U.S. Dollar 11,307 and U.S. Dollar 19,952 (current portion of capital lease liability is U.S. Dollar 8,106 and U.S. Dollar 11,020) respectively.

Future minimum lease payments for the assets under capital leases at September 30, 2006, are as follows:

	Future payments under capital leases
4th quarter 2006	2,734
Year ended December 31	
2007	7,778
2008	2,607
2009	24
Later years 2009	9
Total	**13,152**
Less amount representing interest	(1,845)
Total present value of minimum payments	11,307
Less current maturities of capital lease liabilities	(8,106)
Long-term capital lease liabilities	3,201

(In thousands of U.S. Dollars, except as indicated)

Note 18. Reclamation and Mine Closure Obligation

Mine closure obligations are recognized on the basis of existing project business plans as follows:

Deposit:	Vorontsovskoye mine	Khakandjinskoye mine	Dukat mine	Lunnoye mine	Total
Reclamation and mine closure obligation at December 31, 2005 . .	1,023	1,122	1,835	935	**4,915**
Accretion of reclamation and mine closure obligation	28	19	52	27	**126**
Translation effects	19	6	122	61	**208**
Reclamation and mine closure obligation at September 30, 2006 .	1,070	1,147	2,009	1,023	**5,249**

Note 19. Shareholders' Equity and Earnings per Share

Basic earnings per share were calculated by dividing income from continuing operations, income from discontinued operations and net income, as appropriate, by weighted average number of ordinary shares outstanding during the respective reporting period.

On December 7, 2006 the Company completed a 500 for 1 stock split for ordinary shares. This stock split has been given retrospective treatment as at September 30, 2006 and December 31, 2005. The authorized share capital of the Company is comprised of 2,400,000,000 ordinary shares with par value of Ruble 0.2 per share of which 275,000,000 shares are issued and outstanding, and 100,000 series A preference shares with par value Ruble 100 of which none are issued.

Reserves available for distribution to shareholders are based on the statutory accounting reports of the Company as a stand-alone entity, which are prepared in accordance with Regulations on Accounting and Reporting of the Russian Federation and which differ significantly from U.S. GAAP. Russian legislation identifies the basis of distribution as net income. As at September 30, 2006 ISPA "Polymetal" reported accumulated deficit under statutory accounting rules. However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount disclosed.

The Company does not have any potentially dilutive ordinary stock. Accordingly, only basic earnings per share are presented in these interim consolidated financial statements.

Note 20. Revenues

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Sales to third parties: Sberbank	32,269	—
Sales to third parties: Uralsib	6,606	—
Sales to third parties: MDM Bank	—	8,195
Sales to third parties: Standard Bank London	113,786	93,951
Sales to third parties: Khanty-Mansiysky Bank	—	1,266
Sales to third parties: NIKoil	3,329	26,824
Sales to related parties: Nomos-Bank	67,169	40,974
Subtotal revenue from gold and silver sales	**223,159**	**171,210**
Other sales	317	1,270
Total Revenue	**223,476**	**172,480**

(In thousands of U.S. Dollars, except as indicated)

Note 20. Revenues (Continued)

Presented below is an analysis of revenue from gold and silver sales:

	Nine months ended September 30, 2006			Nine months ended September 30, 2005		
	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollar	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollar
Gold	184	599.8	110,369	172	424.2	72,970
Silver	12,798	8.8	112,790	13,915	7.1	98,240

Discounts from the London Metals Exchange (LME) quotation on sales to banks for the nine months ended September 30, 2006, amounted to U.S. Dollar 753 (for nine months ended September 30, 2005: U.S. Dollar 2,284) for gold and U.S. Dollar 32,611 (for nine months ended September 30, 2005: U.S. Dollar 812) for silver sales. Sales are reported net of discounts.

Discounts above primarily related to the Group 2006 delivery of silver to Standard Bank London at the fixed prices (Note 25). For nine months ended September 30, 2006 prices were fixed in the range from U.S. Dollar 6.6575 to U.S. Dollar 7.95 per troy ounce for 217,236 kg (total sales of silver to Standard Bank London for nine months ended September 30, 2006 were 343,959 kg). The aggregate discounts from the LME quotation totaled U.S. Dollar 278 for sold gold (for nine months ended September 30, 2005: U.S. Dollar 72) and U.S. Dollar 31,295 for sold silver (for nine months ended September 30, 2005: mark-up - 352 U.S. Dollar) relates to the sales of metals to Standard Bank London.

Note 21. Cost of Sales

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Operating costs (excluding staff costs)	57,644	45,318
Staff costs	21,569	17,790
Subtotal operating costs	79,213	63,108
Mining tax	12,223	10,651
Other taxes, except for income taxes	4,098	4,220
Depreciation and depletion	14,752	12,971
Depletion of mineral rights	4,833	525
Accretion of reclamation and mine closure obligation	126	413
Development costs written off	356	—
Other costs	2,388	2,433
Total cost of sales	**117,989**	**94,321**

Note 22. Income Tax

Below are shown the components of deferred tax assets and liabilities:

	September 30, 2006	September 30, 2005
Current tax expense	15,542	7,266
Benefits from tax loss carried forward	(1,980)	(797)
Net change in valuation allowance	—	(2,327)
Change in deferred tax balances, exclusive of changes in valuation allowance and effects on benefits from tax losses carried forward	6,613	3,189
Total income tax expense attributable to continuing operations	**20,175**	**7,331**

(In thousands of U.S. Dollars, except as indicated)

Note 22. Income Tax (Continued)

The actual tax expense (or tax credit) differs from the amount which would have been determined by applying the statutory rate of 24% (2005: 24%) to the income from continuing operations before taxes and minority interest as a result of the application of Russian tax regulations, which disallow certain deductions which are included in determination of income before taxes under U.S. GAAP (social expenditures and other non-production costs, certain general, administrative, financing expenses, foreign exchange differences and other costs). At the same time certain gains and revenues recognized under U.S. GAAP represent nontaxable income.

The components of deferred tax assets and liabilities were as follows:

	September 30, 2006	December 31, 2005
Deferred tax asset:		
Accounts payable and accrued liabilities	—	535
Other current assets	735	420
Tax losses carried forward	5,390	4,443
Total deferred tax asset	**6,125**	**5,398**
Deferred tax liability:		
Property, plant and equipment	(37,427)	(23,224)
Inventories	(12,758)	(8,910)
Total deferred tax liabilities	**(50,185)**	**(32,134)**
Net deferred tax liability	**(44,060)**	**(26,736)**

Tax losses carried forward represent the amounts, which will be off-set against future taxable profits by "Serebro Territorii", "Serebro Magadana", JSC "ISPA "Polymetal" and "Okhotskaya GGC" during the period up to 2010. Each legal entity within the Group constitutes a separate taxpayer for income tax purposes. Tax losses at one entity cannot be used to reduce taxable income of other entities in the Group.

As at September 30, 2006 and December 31, 2005 aggregated tax losses carried forward were Rubles 601,399 thousand and Rubles 532,795 thousand respectively.

Note 23. Acquisitions

ZAO Enisey Mining-and-Geological Company

In June 2006, the Company acquired a 74.17% interest in ZAO Enisey Mining-and-Geological Company (development stage enterprise), which holds a mining license to prospect and evaluate lode gold in the Anenskiy field, from an unrelated party for U.S. Dollar 2,379. In August 2006, the Company acquired from this unrelated party the remaining 25.83% of this company for U.S. Dollar 990. These acquisitions were recorded using the purchase method of accounting.

The final acquisition price allocation is presented below:

Assets acquired and liabilities assumed in 2006:

Mineral rights	1,300
Goodwill	2,381
Deferred tax liabilities	(312)
Cash paid on acquisition	3,369

(In thousands of U.S. Dollars, except as indicated)

Note 23. Acquisitions (Continued)

OAO Okhotskaya GGC

In July 2006, the Company acquired a 30.76% interest in OAO Okhotskaya GGC, an existing consolidated subsidiary of the Company, from a related party for U.S. Dollar 73,857. In August 2006, the Company purchased the remaining 1.89% of this company for U.S. Dollar 7,500. These acquisitions were recorded using the purchase method of accounting.

Assets acquired and liabilities assumed in 2006:

Property, plant and equipment	17,339
Mineral rights	27,557
Goodwill	24,260
Deferred tax liabilities	(10,775)
Decrease in minority interest	22,976
Cash paid on acquisition	81,357

OOO Albazino Resources

In July 2006, the Company acquired the 100% interest in OOO Albazino Resources (a development stage enterprise), which holds a mining license for gold exploration and mining in the Albazinskiy section for U.S. Dollar 7,000.

This acquisition was recorded using the purchase method of accounting.

The final acquisition price allocation is presented below:

Assets acquired and liabilities assumed in 2006:

Mineral rights	5,400
Property plant and equipment	95
Goodwill	2,801
Deferred tax liabilities	(1,296)
Cash paid on acquisition	7,000

In June 2006, the Company acquired a 85% interest in ZAO Aurum, which holds a mining license for gold exploration and mining within the Reftinskaya ore zone, from an unrelated party for U.S. Dollar 19.

In August 2006, the Company acquired a 0.01% interest in ZAO Zoloto Severnogo Urala from an unrelated party for U.S. Dollar 19.

In August-October 2006, the Company acquired a residual 0.48% interest in ZAO Serebro Territorii from an unrelated party for U.S. Dollar 33.4.

ZAO Serebro Magadana

In November 2004, the Company acquired 20% in its subsidiary ZAO Serebro Magadana, the license owner for the Dukat mine, from company P.A.S. Silver (Cyprus) Ltd. Under the acquisition agreement, the Company paid U.S. Dollar 21,226 in cash and committed to pay additionally up to U.S. Dollar 22,500 in contingent future payments. The contingent consideration is payable in annual installments. The size of

(In thousands of U.S. Dollars, except as indicated)

Note 23. Acquisitions (Continued)

each installment depends on the average yearly silver price per troy ounce (FPS) which may vary from U.S. Dollar 5.5 per troy ounce to U.S. Dollar 10.0 per troy ounce:

	Annual instalments
5.5 < FPS < 6.0	500
6.0 < FPS < 7.0	1,000
7.0 < FPS < 8.0	2,000
8.0 < FPS < 9.0	5,000
9.0 < FPS <10.0	6,000
10.0 < FPS	8,000

The first annual fixing period under this arrangement expired in December 2005. The average FPS for that period amounted to U.S. Dollar 7.32 per troy ounce; and the corresponding installment of U.S. Dollar 2,000 must be paid not later than December 2006.

The agreement also contains provisions for early repayment of these payments on the occurrence of certain events, such as a public share offering. In the event of public offering the Company will pay 50% of the outstanding consideration, which is equal to U.S. Dollar 10,250, 30 days after listing.

The acquisition has been accounted for using the purchase method of accounting. Since this purchase involved a contingent consideration agreement that might result in recognition of an additional element of cost of the acquired interest when the contingency is resolved, and the initial purchase price allocation revealed an excess of U.S. Dollar 12,317 of the fair value of the acquired share of net assets over the cash portion of the acquisition cost, the Company recognized a portion of the maximum amount of the contingent consideration as acquisition cost and a deferred credit, respectively, to the extent of such excess in accordance with paragraph 46 of SFAS 141, *Business combinations*.

The remaining contingent consideration amounting to U.S. Dollar 10,183 has not been recorded in these consolidated financial statements as the outcome of the contingency and the amounts of consideration that will become issuable cannot be determinable beyond reasonable doubt at the moment. Such amounts will be recorded when, and if, they become payable.

In June 2005, the Group restructured its holding in ZAO Serebro Magadana by transferring an 80% stake in this company from ZAO GC Dukat (consolidated subsidiary of ISPA "Polymetal") to ISPA "Polymetal". As a result, the Group's effective ownership interest in ZAO Serebro Magadana increased from 88% to 100%. The resultant reduction in minority interest of U.S. Dollar 4,586 was recorded as additional paid-in capital.

Note 24. Sale of Subsidiaries

There were no major disposals in nine months ended September 30, 2006

In September 2005, the Company sold to a related party all of its interests in the following subsidiaries:

– 100% of shares of Kurilskaya GGK, a subsidiary holding the license for development of the Prasolovskoye field for U.S. Dollar 300.

– 100% of shares of Olginskaya GGK, a subsidiary holding the license for development of the Olginskaya gold prospective area for U.S. Dollar 13.

– 100% of shares of Imitzoloto, a subsidiary holding the license for development of the Aprelkovsko-Peshkovsky mining unit for U.S. Dollar 18. In June 2006, the Company reacquired from an unrelated party 100% of shares in Imitzoloto for the consideration of U.S. Dollar 49. As the Group assumed net liabilities as a result of this transaction; on that basis, mineral rights were recognized in the amount of U.S. Dollar 1,759 and deferred tax liability related to these mineral rights was recognized in the amount of U.S. Dollar 422.

Note 24. Sale of Subsidiaries (Continued)

Concurrently with the sale of the subsidiaries as described above, the Company sold its 50% stake in Yeniseyskaya Investment Company for U.S. Dollar 984.

As the operations and cash flows of disposed subsidiaries have been eliminated from the ongoing operations of the Group and the Group will not have any significant continuing involvement in their operations, the results of operations of the disposed components for nine months ended September 30, 2005 (loss in the amount U.S. Dollar 691) together with the gain on disposal for nine months ended September 30, 2005 (in the amount of U.S. Dollar 3,585) are reported net of the applicable income tax as discontinued activities in the consolidated statements of income for nine months ended September 30, 2005.

Note 25. Commitments and Contingent Liabilities

Operating environment. Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

As at September 30, 2006, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

Out of significant operating companies of the Group, tax authorities audited OAO Okhotskaya GGC, ZAO Serebro Magadana and ZAO Serebro Territorii for the period through 2004, and ZAO Zoloto Severnogo Urala for the period through 2005. Nevertheless, according to the Russian tax legislation previously conducted audits do not fully exclude subsequent claims relating to the audited period.

Transfer pricing. The Russian transfer pricing rules, which were introduced from 1 January 1999, provide the possibility for the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how transfer pricing rules should be applied in practice. The arbitration court practice with this respect is contradictory.

The Group companies occasionally perform controllable transactions (e.g. intercompany transactions) based on the terms which Russian tax authorities may qualify as non-market. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution

Note 25. Commitments and Contingent Liabilities (Continued)

of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated although it may be significant.

Political environment. The operations and earnings of the Company are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Company is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Sales Commitments

In December 2004 the Group entered into a tripartite sales agreement with Standard Bank London ("SBL") and commission agent ZAO Standard Bank London ("ZAO SB"). According to the terms of the agreement the Group committed to sell all precious metals produced by ZAO Serebro Magadana and ZAO Serebro "Territorii" to SBL. The commitment is effective during the period from January 1, 2005 to December 31, 2009.

The Group was committed to sell silver to SBL at the following conditions:

- from October 1, 2006 to December 31, 2006 prices are fixed in the range of U.S. Dollar per troy ounce 6.6575-7.95 and the minimum quantity to be sold is 51,530 kg;
- from January 1, 2007 to December 31, 2007 London fixing is applied, but the minimum and maximum prices are specified for every day and these are in the range of U.S. Dollar per troy ounce 6.0-7.0 (minimum price) and U.S. Dollar per troy ounce 7.25-8.6 (maximum price); the minimum quantity to be sold is 432,961 kg;
- from January 1, 2008 to December 31, 2009 London fixing is applied; the minimum quantity to be sold is 934,560 kg.

All quantities of silver in excess of the specified minimum volumes are to be sold at London fixing, determined on next working day after delivery; a discount of up to U.S. Dollar per troy ounce 0.015 for standard quality silver (up to U.S. Dollar per troy ounce 0.045 for no substandard quality silver) may be applied.

For gold, prices and quantities are stipulated as follows: London fixing is to be applied; minimum quantity to be sold is 7,080 kg.

Issued guarantees. As at September 30, 2006, the Group issued the following guarantees: for OOO Press-Invest to third party in the amount of U.S. Dollar 804 for the period up to October 20, 2007; for OOO SZLK to third party in the amount of U.S. Dollar 543 for the period up to November 1, 2007. The Company's management estimates that the likelihood that a loss would be incurred on these guarantees is remote and the fair values of the resultant liabilities are negligible.

Legal proceedings. During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current

Note 25. Commitments and Contingent Liabilities (Continued)

enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Insurance policies. The Russian insurance market is in a developing stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, land transport and purchased accident and health insurance, inter-city motor vehicle passenger insurance and medical insurance for employees. Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

The Group holds insurance policies for a total of U.S. Dollar 732.

Joint venture with AngloGold Ashanti Limited

In September 2006 the Company signed an agreement to set up a strategic alliance and joint venture with AngloGold Ashanti Limited in 2007. Within the framework of this agreement each party will own 50% in the new joint venture. The Company will contribute its shares in ZAO Enisey Mining-and Geological Company and OOO Imitzoloto to the charter capital of the joint venture.

Note 26. Subsequent Events

Acquisitions

In October 2006, the Company acquired a residual 0.03% interest in Zoloto Severnogo Urala from a related party for U.S. Dollar 19.2.

Joint venture with MongolRostsvetmet JV

On December, 8, 2006 the Company signed an agreement with Mongolian-Russian MongolRostsvetmet JV to set up a joint venture AsgatPolymetal LLC. As at the date of this agreement, the parties anticipate that the funding requirements of this joint venture will be as follows:

- In the year 2007 – in the amount of U.S. Dollar 4,000;
- In the year 2008 – in the amount of U.S. Dollar 10,000;
- In the year 2009 – in the amount of U.S. Dollar 17,500.

Initial public offering

After September 30, 2006 the Company began preparations for a potential initial public offering of its shares and global depositary receipts representing its shares with a listing on the London Stock Exchange and certain Russian stock exchanges.

Bank loans

For the period from October 2006 through December 2006, the Company fully repaid before maturity date the principle amount of debt under a long-term loan obtained from Standard Bank London (see Note 15).

As at the December 22, 2006 the Company fully repaid the loan from Barylite Services Limited the outstanding amount of which totaled U.S. Dollar 63,000 as at September 30, 2006. As at December 22, 2006 the Company's amount of debt to Barylite Services Limited under new loans totaled U.S. Dollar 24,438. The interest rate is 4%. These loans have maturity February 1, 2007.

In October – December 2006 the Company received U.S. Dollar 20,000 under the loan facility agreement with bank UralSib. The maturity date is July – December, 2007; the interest rate is 9.0%.

Note 26. Subsequent Events (Continued)

In October – December 2006 the Company received U.S. Dollar 4,920 under the loan facility agreement with OAO Alfa Bank (total amount of loan facility is U.S. Dollar 15,000). The interest rate is 9%. The maturity date is July 31, 2007. The Company pledged the property, plant and equipment of OAO Torgovy Dom Polymetal for the total amount of U.S. Dollar 7,132 as collateral under the Alfa Bank loan facility.

In December 2006 the Company received U.S. Dollar 132,000 under the loan facility agreement with OAOP Sberbank RF (total amount of U.S. Dollar 153,000). The interest rate is Libor+2%. These loans have maturity December 2009.

On December 15, 2006 the Company repaid the loan from OAO Sberbank RF totaling U.S. Dollar 40,410 (see Note 13).

For the period from October to December 2006 the Company received loans from Accord-Invest totaling U.S. Dollar 238. The interest rate is 1%. These loans mature in 2008.

On December 20, 2006 the Company repaid the loan from the Magadan Region Administration totaling U.S. Dollar 3,406 (see Note 15).

Shares split

On December 7, 2006 the Company completed a 500 for 1 stock split for ordinary shares (Note 19).

JOINT-STOCK COMPANY “ISPA “POLYMETAL”
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 and 2003

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
of Joint-Stock Company "ISPA "Polymetal".

1. We have audited the accompanying consolidated balance sheets of Joint-Stock Company "ISPA Polymetal" and its subsidiaries (the "Company") at December 31, 2005, 2004 and 2003 and the related consolidated statements of income, cash flows and shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits,

2. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Joint-Stock Company "ISPA "Polymetal" and its subsidiaries at December 31, 2005, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

4. As described in Note 3 to the consolidated financial statements, the consolidated balance sheet as of 31 December 2004 and the consolidated statement of income, cash flows and changes in shareholders' equity for the year ended 31 December 2004 have been restated to give effect to certain items that were incorrectly accounted for in the consolidated financial statements as previously issued.

ZAO PricewaterhouseCoopers Audit.

October 20, 2006, except for effect of stock split as disclosed in Note 22 as to which the date is December 22, 2006.

JSC "ISPA "POLYMETAL"

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. Dollars, except as indicated)

	Notes	At December 31, 2005	At December 31, 2004 (Restated)	At December 31, 2003
Assets				
Cash and cash equivalents	5	18,925	1,353	1,925
Prepayments to suppliers		10,312	5,268	2,717
Receivables and prepayments from related parties	6	5,323	26,465	37,436
Loans due from related parties	7	13,867	5,867	4,174
Loans due from third parties	8	431	71,141	—
Inventories	9	92,137	83,711	54,778
Short-term VAT receivable	13	20,288	48,676	27,432
Other current assets	12	6,420	22,958	1,661
Total current assets		**167,703**	**265,439**	**130,123**
Long-term investments	10	—	7,222	6,804
Property, plant and equipment, net	11	314,827	273,225	206,528
Long-term VAT receivable	13	23,222	3,770	15,538
Deferred tax asset	25	5,398	5,803	5,467
Total assets		**511,150**	**555,459**	**364,460**
Liabilities and shareholders' equity				
Accounts payable and accrued liabilities to third parties	14	26,538	32,734	15,397
Accounts payable to related parties	15	2,263	4,028	1,647
Short-term debt and current portion of long-term debt due to third parties	16	184,786	51,318	114,621
Short-term debt due to related parties	17	—	42,156	39,471
Tax payable		7,824	5,134	3,307
Current portion of capital lease liabilities	20	11,020	19,467	20,228
Deferred tax liability	25	8,910	12,977	—
Total current liabilities		**241,341**	**167,814**	**194,671**
Long-term capital lease liabilities	20	8,932	15,195	17,427
Long-term debt due to third parties	18	—	116,567	30,916
Long-term debt due to related parties	19	100,000	108,918	82,215
Deferred tax liability	25	23,224	13,813	5,714
Reclamation and mine closure obligation	21	4,915	4,430	4,830
Total liabilities		**378,412**	**426,737**	**335,773**
Minority interest		**16,937**	**29,015**	**7,057**
Commitments and contingent liabilities	29	**—**	**—**	**—**
Shareholders' equity				
Share capital (2,400,000,000 shares authorized at December 31, 2005, 2004 and 2003, par value Rubles 100 per share; 275,000,000 shares issued and outstanding at December 31, 2005, 2004 and 2003)*	22	6,397	6,397	6,397
Additional paid-in capital		56,710	52,124	52,124
Accumulated other comprehensive (loss) income		(4,299)	1,792	(3,841)
Retained earnings (deficit)		56,993	39,394	(33,050)
Total shareholders' equity		**115,801**	**99,707**	**21,630**
Total liabilities and shareholders' equity		**511,150**	**555,459**	**364,460**

* Given the effect of stock split effective 7 December 2006 (Note 22).

Approved on behalf of the Board of Directors on October 20, 2006, except for effect of stock split as disclosed in Note 22 as to which the date is December 22, 2006.

/s/ Nesis V. N.	/s/ Cherkashin S. A.
Nesis V. N., General Director	Cherkashin S. A., Finance Director

The accompanying notes are an integral part of these consolidated financial statements.

JSC "ISPA "POLYMETAL"

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of U.S. Dollars, except as indicated)

	Notes	Year ended December 31, 2005	Year ended December 31, 2004 (Restated)	Year ended December 31, 2003
Revenues	23	238,973	204,487	92,357
Cost of sales	24	(137,924)	(92,850)	(55,494)
Income from mining operations		**101,049**	**111,637**	**36,863**
Exploration expenses		—	(46)	(256)
General, administrative and selling expenses		(22,397)	(15,523)	(9,516)
Other expenses, net		(11,387)	(7,099)	(4,275)
Operating income		**67,265**	**88,969**	**22,816**
Interest expense		(24,869)	(29,223)	(20,993)
Capital lease finance costs		(3,963)	(5,541)	(5,441)
Gain on partial disposal of interest in a consolidated subsidiary	28	—	—	13,850
Exchange (loss) gain, net		(6,826)	8,725	7,587
Income from continuing operations before income tax and minority interest		**31,607**	**62,930**	**17,819**
Income tax (expense)/benefit	25	(9,019)	(17,832)	3,163
Income from continuing operations before minority interest		**22,588**	**45,098**	**20,982**
Minority interest		**(7,883)**	**(17,366)**	**(642)**
Income from continuing operations		**14,705**	**27,732**	**20,340**
Discontinued operations after tax				
Loss from operations of disposed subsidiaries	26	(691)	(2,839)	(6,872)
Gain on disposal of subsidiaries	26	3,585	47,551	—
Income/(loss) on discontinued operations		**2,894**	**44,712**	**(6,872)**
Net income		**17,599**	**72,444**	**13,468**
Basic and diluted earnings per share (expressed in U.S. Dollars)	22			
Income from continuing operations*		**0.053**	**0.100**	**0.074**
Income/(loss) from discontinued operations*		**0.011**	**0.163**	**(0.025)**
Net income		0.064	0.263	0.049
Average number of shares outstanding (thousand)*		275,000	275,000	275,000

* Given the effect of stock split effective 7 December 2006.

The accompanying notes are an integral part of these consolidated financial statements.

JSC "ISPA "POLYMETAL"

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. Dollars, except as indicated)

	Year ended December 31, 2005	Year ended December 31, 2004 (Restated)	Year ended December 31, 2003
Cash flows from operating activities			
Net income	17,599	72,444	13,468
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and depletion	24,847	12,341	6,662
Amortization of intangible assets	287	168	224
Accretion of reclamation and mine closure obligation	644	665	581
Gain on disposal of subsidiaries	(3,585)	(47,551)	—
Capital lease finance costs	3,963	5,541	—
Gain on partial disposal of interest in a consolidated subsidiary	—	—	(13,850)
Deferred income tax expense	(3,951)	14,418	(3,221)
Loss on disposal of property, plant and equipment	3,291	1,338	475
Exchange gains, net	6,875	(8,873)	(8,868)
Minority interest	7,883	17,366	642
Changes in operating working capital, excluding cash:			
Prepayments to suppliers	(5,340)	(2,551)	1,644
Related party receivables and prepayments	20,157	10,971	(7,084)
Inventories	(10,835)	(16,812)	(12,211)
VAT receivable	6,702	(9,687)	(16,972)
Other current assets	15,714	(21,297)	1,239
Accounts payable and accrued liabilities	(4,368)	7,401	2,414
Tax payable	2,860	1,625	(120)
Net cash provided by operating activities	**82,743**	**37,507**	**(34,977)**
Cash flows from investing activities			
Additions to property, plant and equipment	(25,124)	(29,595)	(46,660)
Purchase of additional shares in subsidiary	(49,643)	(21,226)	(296)
Proceeds from disposal of interest in consolidated subsidiaries	989	10,890	20,787
Proceeds from sale of investments	7,211	—	—
Prepayments for acquisition of third party promissory notes	—	—	(12,277)
Loans made to third parties	(131)	(31,117)	—
Repayment of loans made to third parties	61,966	9,670	—
Loans made to related parties	(13,867)	(12,783)	(3,593)
Repayment of loans made to related parties	5,656	10,766	—
Net cash used in investing activities	**(12,943)**	**(63,395)**	**(42,039)**
Cash flows from financing activities			
Ordinary shares issuance	—	—	27,160
Proceeds from short-term loans and borrowings	70,841	138,713	38,518
Repayment of short-term loans and borrowings	(22,929)	(202,913)	(12,317)
Proceeds from long-term debt	—	105,000	135,001
Repayment of long-term debt	(21,976)	(21,893)	(145,952)
Proceeds from short-term loans and borrowings—related parties	32,774	141,454	50,520
Repayment of short-term loans and borrowings—related parties	(72,751)	(141,999)	(14,841)
Proceeds from long-term debt—related parties	124,002	203,040	62,978
Repayment of long-term debt—related parties	(132,753)	(176,807)	(38,971)
Purchase of bonds	—	—	(8,093)
Sale of treasury bonds	—	6,520	—
Lease payments	(29,387)	(25,947)	(15,689)
Net cash (used in) provided by financing activities	**(52,179)**	**25,168**	**78,314**
Exchange effects on cash balances	(49)	148	46
Net increase (decrease) in cash and equivalents	**17,572**	**(572)**	**1,344**
Cash and cash equivalents, beginning of the year	1,353	1,925	581
Cash and cash equivalents, end of the year	**18,925**	**1,353**	**1,925**
Supplementary cash flow information			
Interest paid	39,691	33,230	16,843
Income taxes paid	10,175	3,300	54
Non-cash additions to property, plant and equipment—capital lease	9,664	17,715	24,756

The accompanying notes are an integral part of these consolidated financial statements.

JSC "ISPA "POLYMETAL"

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of U.S. Dollars, except as indicated)

	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total shareholders' equity
Balance at January 1, 2003	**6,227**	**25,134**	**—**	**(46,518)**	**(15,157)**
Comprehensive income:					
Net income	—	—	—	13,468	13,468
Currency translation adjustment (including income tax expense of U.S. Dollar 2,296, charged to other comprehensive loss)	—	—	(3,841)	—	(3,841)
Total comprehensive income					9,627
Share issue (50,000 shares with par value Ruble 100 per share)	170	26,990	—	—	27,160
Balance at January 1, 2004	**6,397**	**52,124**	**(3,841)**	**(33,050)**	**21,630**
Comprehensive income:					
Net income (Restated)	—	—	—	72,444	72,444
Currency translation adjustment	—	—	5,633	—	5,633
Total comprehensive income (Restated)					78,077
Balance at December 31, 2004 (Restated)	**6,397**	**52,124**	**1,792**	**39,394**	**99,707**
Comprehensive income:					
Net income	—	—	—	17,599	17,599
Currency translation adjustment	—	—	(6,091)	—	(6,091)
Total comprehensive income					11,508
Effect of restructuring (Note 27)	—	4,586	—	—	4,586
Balance at December 31, 2005	**6,397**	**56,710**	**(4,299)**	**56,993**	**115,801**

The accompanying notes are an integral part of these consolidated financial statements.

(In thousands of U.S. Dollars, except as indicated)

Note 1: Background

Description of Business

Open joint stock company "Interregional Research and Production Association "Polymetal" (JSC "ISPA "Polymetal" or "the Company") was incorporated on March 12, 1998 in the Russian Federation. The Company is engaged in gold and silver mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Company has acquired a number of gold and silver mining properties in the Russian Federation, which require significant investment to bring to commercial production. The Company has producing assets at Vorontsovkoye and Lunnoye fields, Dukat and Khakandjinskoye mines. The latter was brought into commercial production at the beginning of 2004.

Until November 2005, the Company's ultimate parent was ZAO ICT, which, together with its subsidiaries formed the ICT group. In November 2005 the ultimate beneficial owners of the Company sold their interests in ZAO ICT to OAO NAFTA MOSKVA. The consolidated financial statements of Polymetal reflect its historical cost basis and, accordingly, do not reflect any purchase accounting adjustments related to acquisition of its 99.99% interest by OAO NAFTA MOSKVA.

The Company's ability to meet its obligations and maintain operations is contingent upon the further financial support of its parent company, the successful development and future profitable production of its mining assets, the mining licenses being maintained in good standing and the political, economic and legislative stability in the Russian Federation.

Liquidity and Capital Resources

At December 31, 2003, the Company had a working capital deficit (calculated as the difference between total current assets and total current liabilities). In 2004 the liquidity situation caused by recurring working capital deficit and lack of long-term financing was addressed by management by means of the following measures:

- In March 2004, the Company received a U.S. Dollar 23 million short-term loan from Standard Bank London. As at December 31, 2004, this loan was repaid,
- In December 2004, the Company received a U.S. Dollar 105 million long-term loan from Standard Bank London (see Note 18),
- In September–November 2004, the Company received short-term loans in total amounting to U.S. Dollar 30 million from NIKoil Bank (see Note 16),
- Renegotiation of the short-term debt to MDM-Bank totaling U.S. Dollar 56 million and extending repayment terms to November 2004–January 2005. At the beginning of 2005, this loan was repaid,
- In 2004, shares of Zun Hada engaged in development of Barun-Kholba mine were disposed of. On June 27 and June 28, 2005, Zun Hada repaid amounts (U.S. Dollar 49,397) due to the Group companies (see Note 26).

Composition of the Group

ISPA "Polymetal" and its subsidiaries are collectively referred to as "the Group".

The structure of the Group as at December 31, 2005 included the following significant mining subsidiaries:

Name of subsidiary	Mine	Voting interest, %	Effective ownership interest, %
ZAO Zoloto Severnogo Urala	Vorontsovskoye	99.96	99.96
OAO Okhotskaya GGC	Khakandjinskoye, Urjevskoe	67.35	67.35
ZAO Serebro "Territorii"	Lunnoye	97.11	97.11
ZAO Serebro Magadana	Dukat	100.00	100.00

Note 1: Background (Continued)

Changes in the Group structure and voting and ownership interest in major production subsidiaries in 2004 and 2005 are discussed in Notes 26 through 29.

The company has the following significant mining licenses: Vorontsovskoye field (Sverdlovsk region), Lunnoye field and Dukat field (Magadan region), Khakandjinskoye field and Urjevskoe field (Khabarovsk region).

In March 2005, ISPA Polymetal established a subsidiary OAO Torgovy Dom Polymetal whose core activity is to centralise materials supply to the mining companies.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company and its subsidiaries domiciled in the Russian Federation maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with U.S. GAAP.

Segment Reporting

The Group management manages its business by operating segment. The Group has three operating segments. All these segments meet the aggregation criteria as required by FAS 131 and, therefore, form one reportable segment.

Reclassifications

Certain reclassifications have been made to previously reported balances to conform to the current year's presentation; such reclassifications have no effect on net result of shareholders' equity.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, including discussion and disclosure of contingent liabilities. Management's estimates are made in accordance with mining industry practice. Significant areas requiring the use of management estimates relate to determination of mineral reserves, reclamation and environmental obligations, impairment of assets and valuation allowances for deferred tax assets. Actual results could differ from such estimates.

Reporting and Functional Currency

The Company's functional currency is the Russian Ruble, as the most of the Company's sales revenues and purchases and certain financing agreements are settled in Russian Rubles. The U.S. Dollar is the reporting currency selected by the Group for purposes of financial reporting in accordance with U.S. GAAP.

The transactions and balances in the accompanying financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*. Consequently, assets and liabilities are translated at period closing exchange rates. Revenues, expenses, gains and losses have been translated using period average exchange rates. Translation differences resulting from the use of these exchange rates have been included as a separate component of shareholders' equity.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The exchange rates for one U.S. Dollar were Ruble 28.78 at December 31, 2005, Ruble 27.75 at December 31, 2004 and Ruble 29.45 at December 31, 2003. The average exchange rates for 2005, 2004 and 2003 were Ruble 28.32, Ruble 28.81 and Ruble 30.69 per U.S. Dollar 1 respectively.

Prior to July 1, 2006, the Russian Ruble was not a convertible currency outside of the Russian Federation and material exchange restrictions and controls existed relating to converting Russian Rubles into other currencies. Future movements in the exchange rate between the Russian Ruble and the U.S Dollar will affect the carrying value of the Group's Russian Ruble denominated monetary assets and liabilities. Such movements may also affect the Group's ability to realize non-monetary assets represented in U.S. Dollar in these consolidated financial statements. Accordingly, any translation of Russian Ruble amounts to U.S. Dollar should not be construed as a representation that such Russian Ruble amounts have been, could be, or will in the future be converted into U.S. Dollar at the exchange rate shown or at any other exchange rate.

Principles of Consolidation

The consolidated financial statements include the operations of all entities in which the Group directly or indirectly controls more than 50 percent of voting power and all variable interest entities for which the Group is determined to be the primary beneficiary.

Long-term investments over which the Company does not exercise significant influence are accounted for at cost and adjusted for estimated impairment.

All intercompany transactions and balances between group companies have been eliminated.

Variable Interest Entities are consolidated if the Group is the primary beneficiary in accordance with FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* ("FIN 46 (R)").

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible to known amounts of cash and with an original maturity of three months or less at the date of purchase.

Inventories

Raw materials, spare parts, supplies, ore and doré are valued at lower of cost and net realizable value, using the weighted average cost method.

Property, Plant and Equipment

Property, plant and equipment consists of assets directly related to mining and processing of ore and include costs of development of the mining properties, the costs of acquisition or construction of plant and equipment and capitalized interest. Expenditures for major improvements and renewals are capitalized. The cost of maintenance, repairs and replacement of minor items of property is charged to income as incurred. Interest directly attributable to the acquisition or construction of property, plant and equipment is capitalized as a cost of the asset up to the time the asset is put into use. All other interest is expensed as incurred. Gains and losses on the disposal of assets are included in the statement of income in the period of disposal.

Mineral exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proved and probable reserves, the costs incurred to develop such property, including costs to further delineate the ore body and remove overburden to initially expose the ore body, are capitalized.

Depreciation and depletion are computed using the units-of-production method based on the actual production for the year compared with total estimated proven and probable reserves (in thousands of tons of gold bearing ore).

Note 2: Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Leased property, plant and equipment meeting the criteria of capital lease is capitalized; valued at the lower of asset purchase price and net present value of lease payments. The corresponding part of lease payments is recorded as a liability. Amortization of capitalized leased assets is computed using the units-of-production method.

Property, plant and equipment are assessed for possible impairment in accordance with SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined from estimated discounted future net cash flows.

Deferred Development Expenditures

In general, mining costs are charged to operations as incurred. However, some of the Company's deposits require significant capital expenditures, such as tunneling in preparation of a new mining area. These expenditures are charged to cost of production in the proportion that the amount of ore extracted bears to the amount estimated to be accessed by the preparation work.

Unamortized balances of capitalized development expenditure are expensed when the area that they cover is depleted, or deemed to be depleted by management.

Reclamation and Mine Closure

The Company accounts for reclamation, site restoration and closure obligations based on the provisions of SFAS No. 143 *Accounting for Asset Retirement Obligations*. When the liability is initially recorded, the Company capitalizes the cost by increasing the carrying amount of the related long lived asset. Over time, the liability is accreted to its present value each period, and capitalized cost is amortized over the useful life of the related asset.

Revenue Recognition

The Company recognizes revenue upon the delivery of refined gold and silver to customers.

Income Taxes

Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with SFAS No. 109 *Accounting for Income Taxes*. Deferred income tax assets and liabilities are measured using enacted tax rates in the years in which these temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that the assets will not be realized.

Contributions to Local Authorities

Infrastructure expenditure, which is required to be contributed to the local authorities as a condition of mineral license agreements, is charged to statement of income as incurred.

Comprehensive Income

SFAS No. 130 *Reporting Comprehensive Income* requires disclosure of all changes in equity during a period except those resulting from investments by, and distributions to the Company's shareholders.

Pension Obligations

The Company pays mandatory contributions to the state social funds, which are expensed as incurred.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards

In November 2004, the FASB issued SFAS No. 151*, Inventory Costs*—an amendment of ARB No. 43, Chapter 4, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material as current period costs. It also requires that allocations of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Statement applies to inventory costs incurred in the first fiscal year beginning after June 15, 2005. Management believes that the adoption of SFAS No. 151 will not have a material impact on the Company's reported financial position, net earnings or cash flows.

In March 2005, the Financial Accounting Standards Board ratified the Emerging Issues Task Force consensus 04-06 ("EITF 04-06"), *Accounting for Stripping Costs Incurred during the Production Stage in the Mining Industry*. EITF 04-06 concludes that stripping costs incurred during the production phase of the mine are variable production costs that should be included in the costs of the inventory produced during the period that stripping costs are incurred. The consensus does not change the accounting for stripping costs incurred during the pre-production phase of a mine. The consensus becomes effective for the first reporting period in fiscal years beginning after December 15, 2005. Management is evaluating the impact that this new pronouncement will have on the Company's financial statements.

In April 2006, the FASB issued FSP FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No.* 46(R) ("FSP FIN 46(R)-6"). FSP FIN 46(R)-6 addresses whether certain arrangements associated with variable interest entities should be treated as variable interests or considered as creators of variability, and indicates that the variability to be considered shall be based on an analysis of the design of the entity. FSP FIN 46(R)-6 is required to be applied prospectively to all entities with which the Group first becomes involved and to all entities previously required to be analyzed under FIN 46(R) upon the occurrence of certain events, beginning the first day of the first reporting period after June 15, 2006. Early application is permitted for periods for which financial statements have not yet been issued. Retroactive application to the date of the initial application of FIN 46(R) is permitted but not required, however, if elected, it must be completed no later than the end of the first annual reporting period after July 15, 2006. Management is currently evaluating the potential impact, if any, that the adoption of FSP FIN 46(R)-6 will have on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in periods, disclosure, and transition. FIN 48 is effective in fiscal years beginning after December 15, 2006. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption, with the cumulative effect adjustment reported as an adjustment to the opening balance of retained earnings. Management is currently evaluating the potential impact that the adoption of FIN 48 will have on the Company's consolidated financial statements.

Certain accounting and reporting issues in the mining industry:

In March 2004, the Financial Accounting Standards Board ratified Emerging Issues Task Force Consensus 04-02 ("EITF 04-02"), *Whether Mineral Rights Are Tangible or Intangible Assets*, and Emerging Issues Task Force Consensus 04-03 ("EITF 04-03"), *Mining Assets: Impairment and Business Combinations*. EITF 04-02 concludes that mining entities should account for mineral rights acquired as tangible assets. EITF 04-02 allows inclusion of reserves beyond the mining entity's proved and probable reserves ("value beyond proved and probable") in determination of fair values of acquired mining properties for purposes of purchase price allocation in accordance with SFAS No. 141, *Business Combinations*, and testing for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Both EITF 04-02 and 04-3 are effective for the first reporting period beginning after the Board ratification. In addition, in April 2004 the Financial Accounting Standards Board issued a staff position

Note 2: Basis of Presentation and Summary of Significant Accounting Policies (Continued)

which amended SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*, in order to eliminate the inconsistencies in how mineral rights are characterized by those pronouncements and EITF 04-02.

The Group has adopted these pronouncements and reclassified its recorded mineral rights from Intangible assets to Property, Plant and Equipment. As at December 31, 2004, intangible assets in the amount of U.S. Dollar 2,354 were reclassified from Long-term Investments and Goodwill to Property, Plant and Equipment (December 31, 2003: U.S. Dollar 2,411).

Financial Instruments

Fair values. A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that imposes an obligation to deliver or right to receive cash or another financial instrument. The fair values of financial instruments are determined with reference to various market information and other valuation methods, as considered appropriate. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein may differ from the amounts the Company could receive in current market exchanges.

The net carrying values of cash and cash equivalents, other short-term investments, accounts and notes receivable, accounts and notes payable and accrued liabilities, taxes payable and short-term debt approximate their fair values because of the short maturities of these instruments.

Long-term investments in un-quoted companies are valued at their historical cost adjusted for impairment, as appropriate.

The fair value of the Company's long-term debt was U.S. Dollar 79,719, U.S. Dollar 214,486 and U.S. Dollar 101,346, while the carrying value of such liabilities was U.S. Dollar 100,000, U.S. Dollar 225,485 and U.S. Dollar 113,131 as of December 31, 2005, 2004 and 2003, respectively.

Credit risks. A significant portion of the Company's accounts receivable is balance of VAT receivable from local tax bodies. Management believes there is no significant risk of loss to the Company associated with recoverability of these balances.

Concentration risks. Management believes that no significant concentration risk was associated with any cash and cash equivalents, accounts receivable and prepayments balances at December 31, 2005.

Note 3: Restatement

The Company's financial statements as of December 31, 2004 and for the year then ended have been restated to adjust for the following items:

a) the Company recorded additional income tax expense (Adjustment 3a) of U.S. Dollar 3,272 related to the sale of silver and gold between its subsidiaries that was also sold to third parties in 2004. Previously, the Company had recorded income tax expense on the sale from the subsidiary to the third parties, but did not record the income tax expense for the sale between the subsidiaries;

b) the Company corrected its purchase price allocation for the acquisition of 20% interest in Serebro Magadana (see Note 27) to reflect the portion of contingent consideration which may become due subsequent to acquisition. At the date of acquisition of 20% interest in Serebro Magadana, the fair value of the assets acquired exceeded the purchase price paid resulting in the Company having to recognize as a liability the amount equal to the lesser of the maximum amount of contingent consideration or the excess of the fair value acquired over the cost of the acquired assets. The company recognized an additional liability of U.S. Dollar 12,317 equal to the excess of the fair value of 20% interest in the entity over the price of U.S. Dollar 21,226 paid at the acquisition date (Adjustment 3b).

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 3: Restatement (Continued)

Following is a summary of the effect of the restatement on the consolidated balance sheet at December 31, 2004.

	As previously reported	Adjustment 3a	Adjustment 3b	Restated
Property, plant and equipment, net	256,662	—	14,209	270,871*
Accounts payable and accrued liabilities	(20,417)	—	(12,317)	(32,734)
Deferred tax liability (current portion)	(9,705)	(3,272)	—	(12,977)
Deferred tax liability (long-term portion)	(11,921)	—	(1,892)	(13,813)
Retained earnings	(42,666)	3,272	—	(39,394)

* In addition, mineral rights were reclassified from Intangible assets to Property, Plant and equipment in amount of U.S. Dollar 2,354.

Following is a summary of the effect of the restatement on the consolidated income statements for the year ended December 31, 2004.

	As previously reported	Adjustment 3a	Adjustment 3b	Restated
Income tax expense	(14,560)	(3,272)	—	(17,832)
Income from continuing operations before minority interest	48,370	(3,272)	—	45,098
Income from continuing operations	31,004	(3,272)	—	27,732
Net income	75,716	(3,272)	—	72,444

Following is a summary of the effect of the restatements on the consolidated statement of cash flows for the year ended December 31, 2004.

Selected items comprising cash flows provided by operating activities	As previously reported	Adjustment 3a	Adjustment 3b	Restated
Net income	75,716	(3,272)	—	72,444
Deferred income tax expense	11,146	3,272	—	14,418

Note 4: Variable Interest Entity

In 2004, the Group controlled an entity which was consolidated within the Group as a variable interest entity ("VIE") as the Group was determined to be primary beneficiary. The core operations of this entity were distribution of metals produced by mining and manufacturing subsidiaries of the Group. Included within revenues in the consolidated statement of income for the year ended December 31, 2004 was U.S. Dollar 36,612 representing third-party sales of gold and silver by the entity. As at December 31, 2004 loans to third parties issued by the VIE were U.S. Dollar 21,450. The net assets of the VIE as of December 31, 2004 in the amount of U.S. Dollar 4,584 are reported as minority interest in the consolidated balance sheet. In 2005 this entity did not perform any significant operations.

In November 2005, following the change in ultimate ownership of the Company, the Company discontinued its relationship with this entity and accordingly the entity was deconsolidated. Deconsolidation of the VIE resulted in a decrease of the deferred tax liabilities by U.S. Dollar 1,738, decrease of the loans issued to the third parties by U.S. Dollar 6,322 and decrease of minority interest by U.S. Dollar 4,584.

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 5: Cash and Cash Equivalents

The Company maintains both Russian Ruble and U.S. Dollar bank accounts.

	December 31, 2005	December 31, 2004	December 31, 2003
Denominated in U.S. Dollars	2,887	68	54
Denominated in Russian Rubles	16,038	1,285	1,871
Total cash and cash equivalents	**18,925**	**1,353**	**1,925**

Note 6: Receivables and Prepayments from Related Parties

	December 31, 2005	December 31, 2004	December 31, 2003
Prepayments to Daniz	—	—	20,370
Prepayments to Geotekhservice	5,018	—	—
Trade receivables from Nomos-Bank	—	25,785	15,974
Other related party receivables and prepayments	305	680	1,092
Total receivables and prepayments from related parties	**5,323**	**26,465**	**37,436**

At December 31, 2005, 2004 and 2003 Nomos-Bank was an equity investee of ZAO ICT. At December 31, 2005 Geotekhservice was a subsidiary of ZAO ICT. At December 31, 2004 and 2003 Geotekhservice was controlled by equity holders of ZAO ICT.

Daniz is a subsidiary of ZAO ICT. The prepayments to Daniz at December 31, 2003 included a prepayment of U.S. Dollar 12,397 for third party promissory notes received in 2004 and included in other current assets in the consolidated balance sheet at December 31, 2004.

Note 7: Loans Due from Related Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004	Interest rate %	December 31, 2003
ZAO ICT	11.5%	13,687	—	—	—	—
Geotekhservice	—	—	1%	5,002	1%	3,835
Other loans to related parties	0%-1%	180	0%-1%	865	0%-1%	339
Total loans due from related parties		**13,867**		**5,867**		**4,174**

At December 31, 2004 Geotekhservice was under common control of ZAO ICT.

Note 8: Loans Due from Third Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004	Interest rate %	December 31, 2003
Other loans to third parties	1%	431	1%	294	—	—
Zun Hada	—	—	1%	49,397	—	—
Teina	—	—	4%	21,450	—	—
Total loans due from third parties		**431**		**71,141**	**—**	**—**

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 8: Loans Due from Third Parties (Continued)

As at December 31, 2004 the loans issued to third parties in the total amount of U.S. Dollar 71,141 included U.S. Dollar 49,397 loaned to Zun Hada, which was a subsidiary of the Group until December 2004 (Note 26). This loan was repaid in 2005.

Note 9: Inventories

	December 31, 2005	December 31, 2004	December 31, 2003
Raw materials, spare parts and supplies	42,198	41,770	33,723
Ore	21,361	16,660	4,688
Work in progress	16,005	9,643	5,205
Doré	2,544	8,187	8,548
Finished goods	10,029	7,451	2,614
Total inventories	**92,137**	**83,711**	**54,778**

Note 10: Long-Term Investments

As at December 31, 2004 long-term investments in total amount of U.S. Dollar 7,222 (December 31, 2003: U.S. Dollar 6,804) mainly represent ordinary shares in Nomos-Bank, an equity investee of ZAO ICT, (4.96% of total shares issued), acquired in October 2001 and accounted for at cost. In May 2005, the Company sold its stake in Nomos-Bank to ZAO ICT (Note 1) for an amount approximating the carrying value.

Note 11: Property, Plant and Equipment, net

	December 31, 2005	December 31, 2004	December 31, 2003
Buildings & underground workings	140,205	62,930	32,911
Machinery & equipment	111,005	84,447	51,845
Transport & other	27,380	26,412	23,158
Construction in progress	8,718	102,964	110,915
Mineral rights	87,495	35,958	3,137
Cost	**374,803**	**312,711**	**221,966**
Accumulated depreciation and depletion	**(59,976)**	**(39,486)**	**(15,438)**
Total property, plant and equipment, net	**314,827**	**273,225**	**206,528**

At December 31, 2005 U.S. Dollar 71,597 (of which Machinery & Equipment was U.S. Dollar 56,118 and Transport & other was U.S. Dollar 15,479) relate to capitalized leases (December 31, 2004: U.S. Dollar 66,929, of which Machinery & Equipment was U.S. Dollar 47,430 and Transport & other was U.S. Dollar 19,499), (December 31, 2003: U.S. Dollar 49,214, of which Machinery & Equipment was U.S. Dollar 34,449 and Transport & other was U.S. Dollar 14,765).

At December 31, 2005, accumulated depreciation and depletion of leased assets totaled U.S. Dollar 20,012 (of which U.S. Dollar 14,695 was attributed to Machinery & Equipment, and U.S. Dollar 5,317 to Transport & other). At December 31, 2004 accumulated depreciation and depletion of leased assets totaled U.S. Dollar 15,116 (of which U.S. Dollar 10,857 was attributed to Machinery & Equipment, and U.S. Dollar 4,259 to Transport & other).

At December 31, 2003, of the total accumulated depreciation and depletion of U.S. Dollar 6,709 (of which U.S. Dollar 4,696 was attributed to Machinery & Equipment, and U.S. Dollar 2,013 to Transport & other) relates to capitalized leases.

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 11: Property, Plant and Equipment, net (Continued)

Included within construction in progress were deferred exploration expenditures of U.S. Dollar 2,617, U.S. Dollar 5,283 and U.S. Dollar 7,710 at December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

Mineral rights of the Group comprised of mineral rights acquired by the Group upon acquisition of subsidiaries. Accumulated depreciation of mineral rights was U.S. Dollar 1,782, U.S. Dollar 939 and U.S. Dollar 726 at December 31, 2005, December 31, 2004 and December 31, 2003 respectively.

Note 12: Other Current Assets

	December 31, 2005	December 31, 2004	December 31, 2003
Other current assets	1,734	3,224	8
Other debtors	3,441	1,935	682
Deferred development expenditures	1,245	3,772	971
Promissory notes from Severo-Zapad Invest Prom	—	12,397	—
Promissory notes from Khanti-Mansiiski Bank	—	1,630	—
Total other current assets	**6,420**	**22,958**	**1,661**

Note 13: VAT Receivable

	December 31, 2005	December 31, 2004	December 31, 2003
Short-term VAT receivable	20,288	48,676	27,432
Long-term VAT receivable	23,222	3,770	15,538

Long-term VAT receivable at December 31, 2005, 2004 and 2003 primarily represents VAT balances resulting from capital expenditures which are not expected to be recovered within twelve months following respective balance sheet dates. Management believes that such balances are fully recoverable from tax authorities at the time respective capital assets qualify as put into operation for VAT purposes.

Note 14: Accounts Payable and Accrued Liabilities to Third Parties

	December 31, 2005	December 31, 2004	December 31, 2003
P.A.S. Silver (Cyprus) Ltd. (Note 27)	12,317	12,317	—
Trade accounts payable	6,873	15,563	7,988
Accrued interest payable to third parties	2,294	1,689	3,910
Other accounts payable	5,054	3,165	3,499
Total accounts payable and accrued liabilities to third parties	**26,538**	**32,734**	**15,397**

Note 15: Accounts Payable to Related Parties

	December 31, 2005	December 31, 2004	December 31, 2003
Geotekhservice	2,029	598	—
Press-Invest	231	1,653	—
Trade accounts payable	3	1,777	1,393
Short-term promissory notes			254
Total accounts payable to related parties	**2,263**	**4,028**	**1,647**

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 15: Accounts Payable to Related Parties (Continued)

At December 31, 2005 and 2004 Press-Invest was a subsidiary of ZAO ICT.

Note 16: Short-Term Debt and Current Portion of Long-Term Debt Due to Third Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004	Interest rate %	December 31, 2003
NIKoil Bank (U.S. Dollar)	9-9.5%	20,410	9%	30,000	—	—
MDM-Bank (U.S. Dollar)	10%	25,000	—	—	11.5-12.5%	32,275
Khanti-Mansiiski Bank (U.S. Dollar)	—	—	—	—	11%	7,500
Khanti-Mansiiski Bank (RR)	10%	24,841	—	—	16%	7,639
Alfa-Bank (U.S. Dollar)	—	—	—	—	9.5%	40,000
Current portion of long-term loans (U.S. Dollar)	—	114,535	—	21,318	—	27,207
Total short-term debt and current portion of long-term debt due to third parties		**184,786**		**51,318**		**114,621**

Contractual repayment terms of Standard Bank London loan (see Note 18):

	December 31, 2005
1 to 2 years	19,833
2 to 3 years	19,467
3 to 4 years	21,780
4 to 5 years	—
	61,080

Note 17: Short-Term Debt Due to Related Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004	Interest rate %	December 31, 2003
Nomos-Bank (RR)	—	—	—	—	17-21%	19,471
Nomos-Bank (U.S. Dollar)	—	—	9%	38,910	15%	20,000
Linex (RR)	—	—	17.6%	3,246	—	—
Total short-term debt due to related parties		**—**		**42,156**		**39,471**

As at December 31, 2005 the Group repaid its loans in full. As at December 31, 2004, Linex was a subsidiary of ZAO ICT.

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 18: Long-Term Debt Due to Third Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004	Interest rate %	December 31, 2003
Standard Bank London (U.S. Dollar)	LIBOR + 3.5-4.0%	85,071	LIBOR + 3.5-4.0%	105,000	—	—
Magadan Region Administration (U.S. Dollar)	6%	3,406	6%	5,856	6%	6,135
MDM-Bank (U.S. Dollar)	—	—	—	—	16%	26,525
Bonds (RR)	17-19%	26,058	17-19%	27,029	17-19%	25,463
Less current portion of long-term loans (Note 16)	—	(114,535)	—	(21,318)	—	(27,207)
Total long-term debt due to third parties		**—**		**116,567**		**30,916**

In March 2003 ISPA "Polymetal" issued 750,000 non-convertible bonds. Interest on bonds of 17-19% is paid semiannually. As at December 31, 2005 and 2004 all bonds were issued and registered. The bonds were redeemed in full in March 2006.

In 2004, the Company received a long-term loan totaling U.S. Dollar 105,000 from Standard Bank London (SBL) for the purpose of refinancing its debts and development of current operations. Loan should be repaid in monthly installments starting April 1, 2005 with the last payment being made in 2009. According to the loan agreement the Group should meet certain financial and non-financial covenants. As at December 31, 2005 certain financial covenants were breached and no waiver has been obtained. Accordingly, total amount due to Standard Bank London (including U.S. Dollar 61,080 which should have been repaid later than 12 months period after the reporting date, see Note 16) was classified as current at this date. At the date of issue of these consolidated financial statements no default note pursuant to the loan agreement was received by the Company. At October 20, 2006 the Company was in the process of negotiating with the SBL to obtain the waiver for these covenants breaches.

As at December 31, 2005, ISPA "Polymetal" pledged 23,443 shares (97.11% of the issued and outstanding share capital) of ZAO Serebro "Territorii", 85 shares (85% of the issued and outstanding share capital) of ZAO GC Dukat and 5,400 shares (80% of the issued and outstanding share capital) of ZAO Serebro Magadana as collateral under the Standard Bank London facility. The aggregate carrying value of property, plant and equipment associated with the subsidiaries whose shares were pledged was U.S. Dollar 122,842 and U.S. Dollar 137,309 at December 31, 2005 and 2004.

Borrowing from the Magadan region Administration was guaranteed by Nomos-Bank in amount of U.S. Dollar 5,856.

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 19: Long-Term Debt Due to Related Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004	Interest rate %	December 31, 2003
Nomos-Bank (U.S. Dollar)	9%	100,000	—	—	10%-13%	12,500
Tant (RR)	—	—	—	—	17.6%	31,510
Linex (RR)	—	—	14%	14,846	17.6%	38,205
Accord-Invest (RR)	—	—	1-14.3%	83,082	—	—
Recital (RR)	—	—	1.2%	10,899	—	—
Other (RR)	—	—	0%	91	—	—
Total long-term debt due to related parties		**100,000**		**108,918**		**82,215**

As at December 31, 2004 companies Tant, Linex, Accord-Invest and Recital were subsidiaries of ZAO ICT.

Note 20: Long-Term Capital Lease Liabilities

The Group entered into certain Russian Ruble denominated leases for machinery and equipment and transport vehicles. The third party lessors generally provide payment of taxes, maintenance and certain other operating costs related to the leased property. At December 31, 2005 and 2004, such leases have been treated as capital leases, the total present value of lease obligations were U.S. Dollar 19,952 and 34,662 (current portion of capital lease liability is U.S. Dollar 11,020 and U.S. Dollar 19,467) respectively. In 2003 total present value of lease obligations were U.S. Dollar 37,655 (current portion of capital lease liability is U.S. Dollar 20,228).

Future minimum lease payments for the assets under capital leases at December 31, 2005, are as follows:

	Future payments under capital leases
Year ending December 31	
2006	13,788
2007	7,930
2008	2,334
2009	14
Later years	8
Total	**24,074**
Less amount representing interest (@ 17%)	(4,122)
Total present value of minimum payments	**19,952**
Total less current portion of capital lease liabilities	(11,020)
Total long-term capital lease liabilities	8,932

Equipment with a carrying value of U.S. Dollar 2,064 was pledged as collateral on the operation lease liability to OOO Baltisky Leasing.

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 21: Reclamation and Mine Closure Obligation

Mine closure obligations are recognized on the basis of existing project business plans as follows:

Deposit:	Vorontsovskoye mine	Khakandjinskoye mine	Dukat	Lunnoye mine	Barun-Kholba	Total
Reclamation and mine closure obligation at December 31, 2003	**805**	**725**	**1,512**	**770**	**1,018**	**4,830**
Revision in estimated cash flows .	(62)	79	(117)	(60)	(80)	**(240)**
Accretion of reclamation and mine closure obligation	108	116	202	103	136	**665**
Settlements	—	—	—	—	—	**—**
Translation effects	52	48	99	50	67	**316**
Disposal	—	—	—	—	(1,141)	**(1,141)**
Reclamation and mine closure obligation at December 31, 2004	**903**	**968**	**1,696**	**863**	**—**	**4,430**
Accretion of reclamation and mine closure obligation	152	189	200	103	**—**	**644**
Translation effects	(32)	(35)	(61)	(31)	**—**	**(159)**
Reclamation and mine closure obligation at December 31, 2005	**1,023**	**1,122**	**1,835**	**935**	**—**	**4,915**

Note 22: Shareholder's Equity and Earnings per Share

The authorized share capital of the Company was comprised of 4,850,000 common shares of which 550,000 were issued and outstanding as at December 31, 2005 and 2004 with par value Ruble 100 and 100,000 series A preference shares of which none have been issued with par value Ruble 100.

The structure of share capital of the Company was as follows:

Year of issuance	Number of shares	Exchange rate, RR/ U.S. Dollar	Share capital, U.S. Dollar
2001	350,000	6.08	5,752
2002 and subsequent	200,000	29.45 to 31.58	645
Total	**550,000**		**6,397**

On December 7, 2006 the Company completed a 500 for 1 stock split for ordinary shares. This stock split has been given retrospective treatment as at December 31, 2005, 2004 and 2003. The authorized share capital of the Company is comprised of 2,400,000,000 ordinary shares with par value of Ruble 0.2 per share of which 275,000,000 shares are issued and outstanding, and 100,000 series A preference shares with par value Ruble 100 of which none are issued.

Basic earnings per share were calculated by dividing income from continuing operations, income from discontinued operations and net income, as appropriate, by weighted average number of ordinary shares outstanding during a year. During the years ended December 31, 2005, 2004 and 2003 weighted-average number of ordinary shares outstanding was 550,000 shares. However, as the Company completed a stock split in December 2006 increasing total number of ordinary shares outstanding to 275,000,000 shares, the computations of basic earnings per share were adjusted retroactively for all periods presented to reflect that change in capital structure.

The Company does not have any potentially dilutive ordinary stock. Accordingly, only basic earnings per share are presented in these consolidated financial statements.

Reserves available for distribution to shareholders are based on the statutory accounting reports of the Company as a stand-alone entity, which are prepared in accordance with Regulations on Accounting and

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 22: Shareholder's Equity and Earnings per Share (Continued)

Reporting of the Russian Federations and which differ significantly from U.S. GAAP. Russian legislation identifies the basis of distribution as net income. For 2005, the current year statutory accumulated deficit of ISPA "Polymetal" as reported in its annual statutory accounting report were RR 37,406 thousand (unaudited). However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation, consequently, actual distributable reserves may differ from the amount disclosed.

Note 23: Revenues

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Sales to third parties: Alfa-Bank	—	38,402	—
Sales to third parties: MDM-Bank	8,195	95,389	57,303
Sales to third parties: Standard Bank London	134,691	36,458	1,126
Sales to third parties: Khanti-Mansiiskii Bank	1,266	—	—
Sales to third parties: IBG NIKoil Bank	36,460	—	—
Sales to related parties: Nomos-Bank	56,380	33,405	33,101
Total Revenue from gold and silver sales	**236,992**	**203,654**	**91,530**
Other sales	1,981	833	827
Total Revenue	**238,973**	**204,487**	**92,357**

Sales broken down by gold and silver were as follows:

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Gold			
Thousand ounces	234	213	129
Average price (U.S. Dollar per troy ounce)	429.37	403.56	355.98
U.S. Dollar	100,472	85,959	45,921
Silver			
Thousand ounces	18,918	17,301	9,839
Average price (U.S. Dollar per troy ounce)	7.22	6.80	4.64
U.S. Dollar	136,520	117,695	45,609

Discounts from the London Metals Exchange quotation on sales to banks for the year ended December 31, 2005, totaling U.S. Dollar 2,424 (2004: U.S. Dollar 4,417), (2003: U.S. Dollar 2,847) for gold and U.S. Dollar 3,089 (2004: U.S. Dollar 3,053), (2003: U.S. Dollar 2,924) for silver. Sales were netted against the amount of sales.

Throughout 2005 the Group sold silver to Standard London Bank at fixed prices (see Note 30). The prices were fixed within the range of U.S. Dollar per troy ounce 6.6575 - 7.95 for the sale of 251,144 kg (in 2005, sales of silver to Standard London Bank totaled to 483,228 kg).

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 24: Cost of Sales

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Operating costs (excluding staff costs)	59,944	46,593	25,032
Staff costs	27,965	17,919	13,500
Total operating costs	87,909	64,512	38,532
Mining tax	13,617	9,000	5,334
Other taxes, except for income taxes	6,740	4,418	3,277
Depreciation and depletion	24,847	12,341	6,306
Amortization of intangible assets	287	168	224
Accretion of reclamation and mine closure obligation	644	665	423
Development costs written off	2,460	232	549
Other costs	1,420	1,514	849
Total cost of sales	**137,924**	**92,850**	**55,494**

Note 25: Income Tax

Components of the deferred tax assets and liabilities are as follows:

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Current tax expense	(12,970)	(3,414)	(58)
Change in deferred tax assets	(2,732)	(2,367)	3,007
Net change in valuation allowance	2,327	2,703	2,460
Change in deferred tax liability	4,356	(14,754)	(4,542)
Less deferred tax liability charged to accumulated translation adjustment	—	—	2,296
Total income tax (expense) benefit	**(9,019)**	**(17,832)**	**3,163**

The actual tax expense (or tax credit) differs from the amount which would have been determined by applying the statutory rate of 24% (2004: 24%) to the income from continuing operations before taxes and minority interest as a result of the application of Russian tax regulations, which disallow certain deductions which are included in determination of income before taxes under U.S. GAAP (social related expenditures and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs). At the same time certain gains and revenues recognized under U.S. GAAP may represent nontaxable income (gain on disposal of subsidiary).

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 25: Income Tax (Continued)

The components of deferred tax assets and liabilities were as follows:

	December 31, 2005	December 31, 2004	December 31, 2003
Deferred tax asset:			
Property, plant and equipment	—	—	1,272
Accounts payable and accrued liabilities	535	543	644
Inventories	—	—	3,114
Tax losses carried forward	4,443	7,572	5,467
Other current assets	420	15	—
Total deferred tax asset	**5,398**	**8,130**	**10,497**
Valuation allowance	**—**	**(2,327)**	**(5,030)**
Total net deferred tax asset	**5,398**	**5,803**	**5,467**
Deferred tax liability:			
Property, plant and equipment	(23,224)	(10,793)	(2,296)
Accounts receivable and prepayments from related parties	—	(8,014)	(3,826)
Inventory	(8,910)	(7,983)	408
Total deferred tax liability	**(32,134)**	**(26,790)**	**(5,714)**

A valuation allowance of U.S. Dollar 2,327 (2003: U.S. Dollar 5,030) has been provided for due to the uncertainties of realizing deferred tax assets, other than those arising from tax losses carried forward, in the future.

Tax losses carried forward represent the amounts, which will be off-set against future taxable profits by Serebro "Territorii", Serebro Magadana and Okhotskaya GGC during the period up to 2010. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. Tax losses at one entity cannot be used to reduce taxable income of other entities in the Group.

Deferred tax liability on property, plant and equipment amounting to U.S. Dollar 6,186 (in 2004: U.S. Dollar 6,322) arose as the result of acquisition of shares of ZAO Serebro Magadana (Note 27); amounting to U.S. Dollar 9,835 (in 2004: nil) arose as the result of acquisition of shares of ZAO Zoloto Severnogo Urala (Note 28).

Deferred tax liability amounted approximately to U.S. Dollar 3,271 was not accrued on undistributed accumulated net earnings of subsidiaries, as management regards these earnings as permanently invested.

Deferred tax liabilities have been classified as follows:

	December 31, 2005	December 31, 2004	December 31, 2003
Deferred tax liability:			
Current deferred tax liability	(8,910)	(12,977)	—
Long-term deferred tax liability	(23,224)	(13,813)	(5,714)
Total deferred tax liability	**(32,134)**	**(26,790)**	**(5,714)**

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 25: Income Tax (Continued)

Presented below is reconciliation between the theoretical income tax at the 24 percent income tax rate to the Company's effective income tax.

	Year ended		
	December 31, 2005	December 31, 2004	December 31, 2003
Profit before tax	31,607	62,930	17,819
Theoretical income tax expense at tax rate of 24 percent	(7,586)	(15,103)	(4,277)
Non-taxable income	—	—	3,324
Non-deductible expenses	(1,433)	(2,729)	(120)
Utilization of previously unrecognized tax losses	—	—	1,939
Tax liability included to CTA	—	—	2,296
Income tax (expenses)/benefit	**(9,019)**	**(17,832)**	**3,162**
Attributable to Deferred Tax	3,951	(14,418)	3,220
Attributable to Current Income Tax	(12,970)	(3,414)	(58)

Note 26: Sale of Subsidiaries

In September 2005, the Company sold to a related party all of its interests in the following subsidiaries:

– 100% of shares of Kurilskaya GGK, a subsidiary holding the license for development of the Prasolovskoye field for U.S. Dollar 300.

– 100% of shares of Olginskaya GGK, a subsidiary holding the license for development of the Olginskaya gold prospective area for U.S. Dollar 13.

– 100% of shares of Imitzoloto, a subsidiary holding the license for development of the Aprelkovsko-Peshkovsky mining unit for U.S. Dollar 18. In June 2006, the Company reacquired from an unrelated party 100% of shares in Imitzoloto for the consideration of U.S. Dollar 49.

Concurrently with the sale of the subsidiaries as described above, the Company sold its 50% stake in Yeniseyskaya Investment Company for U.S. Dollar 984.

In December 2004, the Company sold its 70.5% equity interest in ZAO Zun Hada, a subsidiary holding licenses to develop the Barun-Kholba properties, for U.S. Dollar 1,453 without recourse. ZAO Zun Hada had suspended extraction of ore in July 2003 and had not conducted any significant operations thereafter and through the disposal. As ZAO Zun Hada had significant accumulated losses at the time of disposal, the Group recognized a pre-tax gain on disposal of U.S. Dollar 47,551. As at December 31, 2004 the Group had loans receivable from Zun Hada totaling U.S. Dollar 49,397 (see Note 8). These loans receivable were fully recovered in June 2005.

As the operations and cash flows of disposed subsidiaries have been eliminated from the ongoing operations of the Group and the Group will not have any significant continuing involvement in their operations, the results of operations of the disposed components for 2005 (loss in the amount U.S. Dollar 691), for 2004 (loss in the amount U.S. Dollar 2,839) and for 2003 (loss in the amount U.S. Dollar 6,872) together with the gain on disposal for 2005 (in the amount of U.S. Dollar 3,585), for 2004 (in the amount U.S. Dollar 47,551) and for 2003 (in the amount U.S. Dollar 0) are reported net of the applicable income tax as discontinued activities in the consolidated statements of operations for the years ended December 31, 2005 and 2004.

Note 27: Acquisitions

In November 2004, the Company acquired the remaining 20% in its subsidiary ZAO Serebro Magadana, the license owner for the Dukat mine, from company P.A.S. Silver (Cyprus) Ltd. The Company paid U.S. Dollar 21,226 in cash and will pay up to U.S. Dollar 22,500 in contingent future payments. The future

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 27: Acquisitions (Continued)

payments will be made annually based on the average yearly silver price per troy ounce (FPS) in the range U.S. Dollar 5.5 per ounce to U.S. Dollar 10.0 per ounce:

	Annual installments
5.5 < FPS < 6.0	500
6.0 < FPS < 7.0	1,000
7.0 < FPS < 8.0	2,000
8.0 < FPS < 9.0	5,000
9.0 < FPS <10.0	6,000
10.0 < FPS	8,000

The first annual fixing period under this arrangement expired in December 2005. The average FPS for that period amounted to U.S. Dollar per troy ounce 7.32; and the corresponding installment must be paid not later than December 2006.

The agreement also contains provisions for early repayment of the future payments on the occurrence of certain events, such as a public share offering.

The acquisition has been accounted for using the purchase method of accounting. Since this purchase involved a contingent consideration agreement that might result in recognition of an additional element of cost of the acquired interest when the contingency is resolved, and the initial purchase price allocation revealed an excess of U.S. Dollar 12,317 of the fair value of the acquired share of net assets over the cash portion of the acquisition cost, the Company recognized a portion of the maximum amount of the contingent consideration as acquisition cost and a deferred credit, respectively, to the extent of such excess in accordance with paragraph 46 of SFAS 141, Business Combinations. The final purchase price allocation included the following:

Assets acquired and liabilities assumed

Properties, plant and equipment	32,665
Deferred tax liabilities	(6,322)
Liabilities for contingent consideration	(12,317)
Reduction of minority interest	7,200
Cash paid at acquisition	21,226

The remaining contingent consideration amounting to U.S. Dollar 10,183 has not been recorded in the accompanying consolidated financial statements as the outcome of the contingency and the amounts of consideration that will become issuable is not determinable beyond reasonable doubt at the moment. Such amounts will be recorded when, and if, they become issuable.

In June 2005, the Group restructured its holding in ZAO Serebro Magadana (Note 1) by transferring an 80% stake in this subsidiary from ZAO GC Dukat (consolidated subsidiary of ISPA "Polymetal") to ISPA "Polymetal". As a result, the Group's effective ownership interest in ZAO Serebro Magadana increased from 88% to 100%. The resultant reduction in minority interest of U.S. Dollar 4,586 has served to increase additional paid-in capital.

Note 28: Acquisition of Preferred Shares of ZAO Zoloto Severnogo Urala

In September 2003 ZAO Zoloto Severnogo Urala, a Company's subsidiary, issued 30 000 series A preferred shares with par value Ruble 1 000 per share for a price of Ruble 20 409 per share. The proceeds from the issuance totaled U.S. Dollar 20 787 and the entire issue was sold to Nomos-Bank, a related party (associate of ZAO ICT). According to the terms of the issue, the preferred share have a liquidation preference of 50% of stated par value and convey dividend rights equal to those enjoyed by holders of

Note 28: Acquisition of Preferred Shares of ZAO Zoloto Severnogo Urala (Continued)

common shares. As a result of the issue, the Company's effective ownership interest in ZAO Zoloto Severnogo Urala decreased from 99.95% to 83.33%.

The transaction was accounted for as a disposal of an interest in a consolidated subsidiary, and the Company recognized a gain on disposal of U.S. Dollar 13 850 determined as the difference between the proceeds from the preferred share issuance and the carrying value of the disposed interest.

In February 2004, ISPA "Polymetal" sold 538 ordinary shares (25.08% equity interest) of OAO Okhotskaya GGC to third parties. Consideration received amounted to U.S. Dollar 5. As a result, Polymetal's share in OAO Okhotskaya GGC reduced to 54.9%. In April 2004, OAO Okhotskaya GGC issued 20,592 common shares at par value Russian rubles 100 per share, of which 14,136 shares were purchased by ISPA "Polymetal" for U.S. Dollar 22,942, and 6,456 shares by other shareholders for U.S. Dollar 10,478. As a result of the second transaction, Polymetal's share in OAO Okhotskaya GGC has increased to 67.35%.

In October 2005, the Group acquired 30,000 A series preferred shares of ZAO Zoloto Severnogo Urala, the Company's subsidiary, from investee of shareholders of ZAO ICT for U.S. Dollar 49,643. As a result of this transaction, the Group's effective ownership interest in ZAO Zoloto Severnogo Urala increased from 83.33% to 99.96%. This transaction has been recorded using the purchase method of accounting and the difference between purchase price and the fair value of the acquired share of net assets has been recorded as mineral rights and totaled U.S. Dollar 41,797 (in addition, this amount was grossed up by respective deferred tax of U.S. Dollar 9,835). Minority interest was also reduced by U.S. Dollar 7,846.

Note 29: Commitments and Contingent Liabilities

Operating environment. Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

As at December 31, 2005 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

Of the Group's major operating companies, OAO Okhotskaya GGC, ZAO Serebro Magadana and ZAO Serebro "Territorii" were inspected by the tax authorities up to and including 2004, and ZAO Zoloto Severnogo Urala up to and including 2005.

Transfer pricing. Russian transfer pricing legislation, which was introduced from January 1, 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities

Note 29: Commitments and Contingent Liabilities (Continued)

in respect to of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent related parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where with unrelated parties if the price applied by a taxpayer differs on similar transactions with two different counterparties by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

The Group occasionally conducts intercompany transactions and transactions with related parties at terms, which can be considered as off-market by Russian tax authorities. The form of the transactions and their accompanying documentation would generally meet the literal requirements of the applicable tax legislation Tax liabilities arising from these transactions are determined using actual transaction prices, and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of tax law the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

Political environment. The operations and earnings of the Company are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Company is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Sales commitments. In accordance with the loan agreement of ZAO Zoloto Severnogo Urala with Nomos-Bank, Nomos-Bank has a priority right to buy gold produced in 2005 from Zoloto Severnogo Urala. The price is not specified in the agreement.

In December 2004, the Group entered into a tripartite sales agreement with Standard Bank London ("SBL") and commission agent ZAO Standard Bank ("ZAO SB"). According to the terms of the agreement the Group committed to sell all the precious metals produced by ZAO Serebro Magadana (Note 1) and ZAO Serebro "Territorii" (Note 1) to SBL. The commitment is effective during the period from January 1, 2005 to December 31, 2009. The Group was committed to sell silver at the following conditions:

- from January 1, 2006 to December 31, 2006 prices are fixed in the range of U.S. Dollar per troy ounce 6.6575-7.95 and the minimum quantity to be sold is 280,399 kg;
- from January 1, 2007 to December 31, 2007 London fixing is applied, but the minimum and maximum prices are specified for every day and these are in the range of U.S. Dollar per troy ounce 6.0-7.0 (minimum price) and U.S. Dollar per troy ounce 7.25-8.6 (maximum price); the minimum quantity to be sold is 432,961 kg;
- from January 1, 2008 to December 31, 2009 London fixing is applied; the minimum quantity to be sold is 934,560 kg.

All quantities of silver in excess of the specified minimum volumes are to be sold at London fixing, determined on next working day after delivery; a discount of up to U.S. Dollar per troy ounce 0.015 for standard quality silver (up to U.S. Dollar per troy ounce 0.045 for substandard quality silver) may be applied.

For gold, prices and quantities are stipulated for the entire period of the agreement as follows: London fixing is to be applied; minimum quantity to be sold is 7,080 kg.

Note 29: Commitments and Contingent Liabilities (Continued)

Issued guarantees. As at December 31, 2005, the Group issued the following third party guarantees: for OOO Baltysky Leasing to OAO Industry and Construction Bank amounting to U.S. Dollar 1,912 for the period up to June 25, 2006; for OOO Press-Invest to OOO Instroytekhcom in the amount of U.S. Dollar 804 for the period up to October 20, 2007. The Company's management estimates that the likelihood that a loss would be incurred on these guarantees is remote and the fair values of the resultant liabilities are negligible.

Capital commitments imposed by license agreements. The "Khakanjinskoye" mine mineral license agreement (with amendments) imposes an obligation on the OAO Okhotskaya GGC to contribute U.S. Dollar 500 to the project of Okhotsk region infrastructure development. As at December 31, 2005, U.S. Dollar 222 was contributed. As at present date, obligations of OAO Okhotskaya GGC under the license agreement were fulfilled in full.

Legal contingencies. During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Environmental contingencies. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Insurance policies. The Group holds insurance policies covering property and assets under finance lease for a total of U.S. Dollar 189,728 (2004: U.S. Dollar 22,474), civil liability for a total of U.S. Dollar 4,172, disruption of production for a total of U.S. Dollar 115,776.

Note 30: Subsequent Events

Acquisitions

In June 2006, the Company acquired from an unrelated party a 74.17% interest in ZAO Yeniseiskaya Gorno-Geologicheskaya Company, holding the license for development of the Annenskaya territory, for the consideration of U.S. Dollar 2,379. In August 2006, the Company acquired from an unrelated party the residual 25.83% interest of this company for the consideration of U.S. Dollar 990.

In June 2006, the Company acquired from an unrelated party 85% interest of ZAO Aurum, holding the license for development of the Reftinskaya mining zone, for the consideration of U.S. Dollar 19.

In July 2006, the Company acquired from a related party 30.76% interest in OAO Okhotskaya GGC for the consideration of U.S. Dollar 74,380. In August 2006, the Company acquired from an unrelated party the residual 1.89% of this company for the consideration of U.S. Dollar 7,500.

In July 2006, the Company acquired from an unrelated party 100% interest in OOO Resursy Albazino, holding the license for exploration and production of gold at Albazinskiy area for the consideration of U.S. Dollar 7,000.

In August 2006, the Company acquired from an unrelated party 0.01% interest in ZAO Zoloto Severnogo Urala, for the consideration of U.S. Dollar 19.

In August–October 2006, the Company acquired from an unrelated party 0.48% interest in ZAO Serebro Territorii, for the consideration of U.S. Dollar 33.4.

(In thousands of U.S. Dollars, except as indicated) (Continued)

Note 30: Subsequent Events (Continued)

In October 2006, the Company acquired from a related party 2.41% interest in ZAO Serebro Territorii, for the consideration of U.S. Dollar 10.7.

In October 2006, the Company acquired from a related party 0.03% interest in ZAO Zoloto Severnogo Urala, for the consideration of U.S. Dollar 19.2.

Establishment of a joint venture

In September, the Company signed an agreement on formation in 2007 of a strategic alliance with an unrelated party. In the framework of this agreement, each party will own 50% in the joint venture to be established. The Company will contribute to the charter capital of the joint venture 50% of its interest in the charter capital of ZAO Yeniseiskaya Gorno-Geologicheskaya Company and OOO Imitzoloto.

Bank loans

For the period from January 2006 through September 2006, the Company paid U.S. Dollar 30,217 as repayment of the principle amount of debt totaling U.S. Dollar 85,071 under a long-term loan obtained from Standard Bank London and U.S. Dollar 4,910 as interest accrued on this loan.

In February–March 2006, the Company received U.S. Dollar 40,000 under the credit facility agreement with bank UralSib. The maturity date is July 31, 2007, the interest rate is 9.0% p.a.

In May 2006, the Company repaid the loan of MDM-bank in the amount of U.S. Dollar 25,000, as well as the RR denominated loan of the said bank in the amount of U.S. Dollar 26,403.

In April–July 2006, the Company received funds from Sberbank RF in the aggregated amount of U.S. Dollar 220,000. The interest rate is 7% p.a. The repayment schedule is the following:

August 21, 2006	5,000
September 18, 2006	5,000
September 26, 2006	30,000
September 29, 2006	70,000
December 26, 2006	40,410
July 23, 2007	69,590

In July–September 2006 the Company received funds from Gazprombank for the total amount of U.S. Dollar 100,000. The interest rate is 8% p.a. The repayment schedule is the following:

July 31–December 31, 2007	27,600
January 31–December 31, 2008	54,000
January 30–April 27, 2009	18,400

In September 2006, the Company received US Dollar 10,000 from Alfa bank. The maturity date is December 15, 2006, the interest rate is 8.3% p.a.

APPENDIX 1:
MINERAL EXPERT'S REPORT

AN INDEPENDENT MINERAL EXPERTS' REPORT ON THE MINING ASSETS OF POLYMETAL

Prepared for:

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and other managers of the offering of the ordinary shares of OJSC Polymetal

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AN INDEPENDENT MINERAL EXPERTS' REPORT ON THE MINING ASSETS OF OJSC POLYMETAL —EXECUTIVE SUMMARY

1.0ES INTRODUCTION

1.1ES Background

SRK Consulting (UK) Limited ("SRK") is an associate company of the international group holding company, SRK Global Limited (the "SRK Group"). SRK has been commissioned by the board of directors of OJSC Polymetal ("Polymetal" also referred to as the "Company") to prepare an independent mineral experts' report ("MER") on the mining and exploration assets (the "Mining Assets") of the Company.

This MER has been prepared by SRK and will be included in the prospectus (the "Prospectus") to be published by the Company in connection with a simultaneous offering of global depository receipts ("GDRs") and ordinary shares ("Ordinary Shares"): the "Securities" in the Company and the proposed admission of the GDR's of the Company to the Official List maintained by the Financial Services Authority ("FSA") and the admission of such shares to trading on the London Stock Exchange plc's (the "LSE") market for listed securities (the "Offer").

SRK has also been informed that the associated Ordinary Shares (See Prospectus) will be listed on the Russian Trading System ("RTS") and the Moscow Interbank Currency Exchange ("MICEX").

The MER has been prepared in accordance with the following rules and recommendations (hereinafter referred to as the "Rules"):

- The Prospectus Rules (the "Prospectus Rules") published by the FSA from time to time and governed by the United Kingdom Listing Authority ("UKLA");
- The Prospectus Directive (the "Prospectus Directive") published by the FSA from time to time and governed by the UKLA; and
- "CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses No. 909/2004", published in January 2005: specifically paragraphs 131 to 132, section 1b—Mineral Companies, hereinafter referred to as the "CESR Recommendations".

This MER does not contain a valuation of the Mining Assets of the Company, accordingly this MER does not constitute a competent person's report within the meaning of Chapter 19 of the UKLA's Listing Rules as it existed on June 30, 2005 (prior to its deletion upon the implementation in the UK on July 1, 2005 of the Prospectus Directive).

This MER is addressed to the Company, the Joint Global Co-ordinators and Joint Bookrunners and other Managers (Deutsche Bank AG, Merrill Lynch International, UBS Limited, and other managers of the offering by the Company, hereinafter referred to as the "Managers") hereinafter referred to as the

"Financial Advisors"); Skadden, Arps, Slate, Meagher & Flom LLP, the legal advisors to the Company; and Cleary Gottlieb Steen & Hamilton LLP, the legal advisors to the Managers.

Drafts of the MER were provided to the Company, but only for the purpose of confirming both the accuracy of factual information and the reasonableness of assumptions relied upon in this MER.

SRK has given and has not withdrawn its written consent to the inclusion of its MER set out in "Appendix 1: Mineral Expert's Report" and references to its report and its name in the form and context in which they are respectively included and has authorised the contents of its report and context in which they are respectively included and has authorised the contents of its report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004.

In respect of all matters in relation to Limitations, Reliance on Information, Declarations, Consent and Copyright, the reader is referred to Section 1.6 of the MER (main report).

1.2ES Review Process

This MER is dependent upon technical, financial and legal input. In respect of the technical information as provided to and taken in good faith by SRK has not been independently verified by means of re-calculation. SRK has however conducted a review and assessment of all material technical issues likely to influence the future performance of the Mining Assets, which included the following:

- Inspection visits to the Mining Assets' mining and processing facilities, surface structures and associated infrastructure undertaken most recently October 2006;
- Discussion and enquiry following access, to key project and head office personnel between June 2006 and December 2006;
- An examination of historical information (2003, 2004, 2005 and 2006$^{(H1+Q3)}$) and results made available by the Company in respect of the Mining assets;
- A review and where considered appropriate by SRK, modification of the Company's production forecasts contained in the Life-of-Mine plans ("LoMp");

SRK has also:

- Assumed certain macro-economic parameters and commodity prices and relied on these as inputs to assess the viability of the Ore Reserves of the Company; and
- Satisfied itself that such information is both appropriate and valid for the Ore Reserve economic viability assessment as reported herein.

Where fundamental base data have been provided (LoMp, capital expenditures, operating budgets etc) for the purposes of review, SRK has performed all necessary validation and verification procedures deemed appropriate in order to place an appropriate level of reliance on such information.

The forecast of commodity prices in real terms, specifically for gold and silver are derived from a combination of consensus market forecasts (annual averages of various market analysts forecasts) and the long term price as implied by that used to derive the Ore Reserves as stated in this MER: US$450/oz for gold and US$7.00/oz for silver.

SRK has undertaken a break even analysis in order to assess the economic viability of the accompanying Ore Reserve statements (hereinafter referred to as the Ore Reserves economic viability assessment—"Ore Reserves EVA"). This includes the commodity price which:

- is equivalent to the weighted average LoMp real terms total costs;
- reflects the current (2006$^{(H1+Q3)}$) cash costs; and
- is required to return a zero NPV at a real terms discount factor of 10%.

2.0ES THE MINING ASSETS

The Company and its subsidiaries conduct open-pit and underground gold and silver mining and related activities, including exploration, development, and operation of gold and silver mines, metallurgical processing, and smelting. It currently has four operating mines, three projects (two of which are at feasibility study level); and 10 exploration properties.

Polymetal acts as a holding company and derives its revenues entirely from the operations of its subsidiaries. The Company's mining operations are conducted through its production subsidiaries, which hold the production and exploration licences for its mines. The Company's exploration and development activities are conducted through its exploration subsidiaries, which hold licences for stand-alone exploration projects such as Albazino, and its production subsidiaries, which hold licences for regional exploration campaigns. OJSC Polymetal Management provides management services to each of the Company's subsidiaries. CJSC Polymetal Engineering provides research and engineering services to the Company's production and exploration subsidiaries as well as to third parties. LLC Trading House Polymetal provides logistical, supply, purchasing and maintenance services to each of the Company's subsidiaries.

The subsidiaries comprise Open Joint Stock Companies ("OJSC"), Closed Joint Stock Companies ("CJSC") and Limited Liability Companies ("LLC"). All subsidiaries bar one exploration Company are wholly owned and in addition the Company holds 50% interests in Joint Ventures and has entered into a strategic alliance with AngloGold Ashanti Limited.

As of 1 October 2006 the Company's principal subsidiaries comprised four production subsidiaries, five exploration subsidiaries, a management subsidiary, and engineering and scientific research subsidiary and a logistics and maintenance subsidiary:

The Mining Assets are subdivided into operating mines, projects and exploration properties: has been reviewed by SRK are as presented in Table 2.1ES below:

Table 2.1ES Mining Assets(1), (2)

Asset Type	Holding Subsidiary(3)	Type	Equity (%)
Operating Mines			
Dukat	Magadan Silver	o/p, u/g	100%
Vorontsovskoye	Northern Urals Gold	o/p	100%
Lunnoye	Silver Territories	o/p, u/g(4)	100%
Khakanjinskoye	Okhotsk	o/p, u/g(5)	100%
Projects			
Arylakh	Silver Territories	o/p(6)	100%
Yurievskoye	Okhotsk	o/p(7)	100%
Albazino(8)	Resource Albazino	o/p	100%
Exploration Property			
Dukat Prospective Area	Magadan Silver	n/d	100.0%
Dukat Ore Field	Magadan Silver	n/d	100.0%
APU Project(9),(10)	Imitzoloto	o/p	100.0%
Anenskoye Prospect(10)	Yenisey	n/d	100.0%
Katasminskaya Prospect	Northern Urals Gold	o/p	100.0%
Galkinskaya Prospect	Northern Urals Gold	o/p	100.0%
Rudnichniy Prospect	Northern Urals Gold	o/p	100.0%
Fevralskoye Prospect	Aurum	n/d	85.0%
Khakarinskaya Prospect	Georazvedka	n/d	100.0%
Arkinskaya Prospect(11)	Georazvedka	o/p	100%

(1) Additional details regarding title and title conditions are included in Section 2.0 of this MER.

(2) o/p—open-pit; u/g—underground; and n/d—not determined.

(3) Holding subsidiaries are: CJSC Magadan Silver ("Magadan Silver"); CJSC Northern Urals Gold ("Northern Urals Gold"); CJSC Silver Territory ("Silver Territories"); OJSC Okhotsk Mining and Geological Company ("Okhotsk"); CJSC Georazvedka ("Geroazvedka"); CJSC Yenisey Mining and Geological Company ("Yenisey"); LLC Imitzoloto ("Imitzoloto"); LLC Resource Albazino ("Resource Albazino"); and CJSC Aurum ("Aurum").

(4) Underground mining operation planned to commence production in 2008.

(5) Underground mining operation planned to commence production in 2011.

(6) Open-pit mining operation planned to commence production in 2007.

(7) Open-pit mining operation planned to commence production in 2013.

(8) Scoping study completed, pre-feasibility study to commence in 2007. Mineral Resource statement audited in respect of JORC Code compliance by Snowden Mining Industry Consultants Pty Limited, part of Roche Mining MT ("Roche") the wholly owned mining division of Downer EDI Limited a public company listed on the Australian Stock Exchange.

(9) The APU Project comprises: the Talovy Prospect; the Rudni Prospect and the Aprelkovsko-Peshkovsky Prospect.

(10) The APU Project and the Anenskoye Prospect is the subject of the proposed strategic alliance between the Company and AngloGold Ashanti Limited. These in addition to a US$12m cash commitment represent the Company's contribution to acquire a 50% interest in the proposed strategic alliance. AngloGold Ashanti Limited has contributed the Veduga Prospect and the Bogunay Prospect representing its' 50% contribution. Neither the Veduga Prospect nor the Bogunay Prospect has been reviewed by SRK.

(11) Not reviewed by SRK.

Table 2.2ES presents selected historical operating statistics for the Company. In 2005, the Company processed approximately 2.5Mt of ore and produced approximately 243koz of gold and 18.9Moz of silver at a gold equivalent cash cost of US$207/oz. For the nine month period ending 30 September 2006, the Company processed approximately 2.2Mt of ore and produced approximately 186koz of gold and 13.0Moz of silver at a gold equivalent cash cost of US$289/oz.

Table 2.2ES Company: salient historical operating results(1), (2)

Statistics	Units	2003	2004	2005	2006(H1+Q3)
Production					
Tonnage	(kt)	1,654	2,141	2,525	2,186
Grade	(g/t Au)	3.1	3.7	3.6	3.3
	(g/t Ag)	332.5	316.6	314.7	247.6
Produced					
Gold	(koz Au)	131	212	243	186
Silver	(koz Ag)	11,762	17,287	18,936	12,965
Gold Equivalent	(koz Au Eq)	264	444	572	376
Expenditures					
Cash Cost	(US$m)	66.8	93.8	118.5	108.7
Capital Expenditure	(US$m)	35.3	23.6	13.7	21.3
Unit Expenditures (Cash Costs)					
Cash Cost per tonne processed	(US$/t)	40	44	47	50
co-product (Gold Equivalent)	(US$/oz Au Eq)	253	211	207	289
co-product (Silver Equivalent)	(US$/oz Ag Eq)	2.87	2.84	3.61	4.24
by-product (Gold)	(US$/oz Au)	162	30	-74	-22
by-product (Silver)	(US$/oz Ag)	1.87	0.81	0.95	-0.13

(1) Excluding Barun-Kholba an asset which has been disposed of by the Company.

(2) The historical production and expenditure statistics as reported have on an asset by asset basis, unless otherwise stated been derived from the Company's management accounts and on-mine statistics. These in addition to historical information reported in other technical sections of this MER may differ from the Company's published financial statements which are subject to equity reporting principles or such adjustments which may be included for public domain reporting. Furthermore the cash cost statistics are reported on the basis of metals produced and not metal sold. Therefore the historical information as presented may not be directly comparable with similar information as presented in the main body of the Prospectus. Metal produced will include movements in work-in-progress and other refinery adjustments. This will result in different calculations of metallurgical recovery as presented in Section 7.0 of this MER. Cash costs have been standardised on a gold co-product basis with gold equivalent as the denominator. In recognition that the operating mines producing both gold and silver in varying proportions, SRK has also included cash costs on the following basis: silver co-product; gold by-product; silver by-product.

3.0ES MINERAL RESOURCES AND ORE RESERVES

SRK has not re-estimated the Mineral Resource and Ore Reserve statements as estimated by the Company for each of the Mining Assets. SRK has, however, undertaken sufficient check calculations and where appropriate, made necessary adjustments to the estimates as presented herein and incorporated into the respective LoMp.

Notwithstanding the above, SRK has reviewed the Company's processes used to derive its Mineral Resource and Ore Reserve estimates since 2003. Specifically SRK has overviewed the process of converting from historical manual estimation as generally applied Russia to the current JORC Code compliant estimates. These estimates are derived using 3D computerised techniques and in SRK's opinion are aligned with good international practice. In arriving at its opinion, SRK specifically has:

- Reviewed and agreed the generation of the geological wire-frames;

- Reviewed and agreed the estimation parameters prior to interpolation of grades into the geological model;
- Reviewed the principal parameters used to derive and state "potentially economically mineable Mineral Resources' and the Ore Reserves, specifically the commodity prices and the modifying factors; and
- Undertaken direct comparisons between the estimates produced as at 1 January 2006 and the first JORC Code compliant estimates generated by the Company, dated 1 January 2005, and reviewed by SRK.

Table 3.1ES through Table 3.3ES inclusive summarise SRK's statements of Mineral Resources and Ore Reserves. The terms and definitions are those given in The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

In respect of the Albazino Project, the Mineral Resource estimates as presented by the Company have been audited by Snowden Mining Industry Consultants Pty Limited ("Snowden"), part of Roche Mining MT ("Roche") the wholly owned mining division of Downer EDI Limited a public company listed on the Australian Stock Exchange. In presenting the Mineral Resource statements for the Albazino Project, SRK has:

- Reviewed the estimation and classification procedures and confirmed that the resulting statements have been generated in an appropriate and unbiased manner; and
- Not visited the site, nor inspected any of the core, therefore relied on the Snowden's opinion that the statements as re-produced herein are reported in compliance with the JORC Code.

Table 3.1ES Mining Assets: Mineral Resource and Ore Reserve statement(1 through 12)

	Ore Reserve Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—u/g(1)	11,790	1.1	543.9	9.8	424	206,166	3,730
—o/p(1)	24,612	3.3	100.4	4.6	2,619	79,460	3,679
Subtotal	**36,402**	**2.6**	**244.0**	**6.3**	**3,044**	**285,626**	**7,409**
Probable Ore Reserves							
—u/g(1)	8,163	1.5	451.8	8.6	405	118,574	2,245
—o/p(1)	2,083	1.9	206.4	4.9	129	13,824	325
—s/p(1)	3,888	1.8	39.6	2.5	219	4,953	309
Subtotal	**14,134**	**1.7**	**302.2**	**6.3**	**753**	**137,351**	**2,879**
Total (2P)	**50,537**	**2.3**	**260.3**	**6.3**	**3,797**	**422,977**	**10,288**

	Mineral Resource Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—u/g(1)	12,643	1.4	641.9	11.6	554	260,912	4,720
—u/g(2)	113	2.5	332.9	7.0	9	1,208	25
—o/p(1)	25,658	3.5	99.6	4.8	2,870	82,138	3,928
Subtotal	**38,414**	**2.8**	**278.7**	**7.0**	**3,433**	**344,257**	**8,674**
Indicated Mineral Resource							
—u/g(1)	7,792	1.9	563.3	10.5	468	141,122	2,636
—u/g(2)	511	1.6	391.4	7.0	26	6,424	115
—o/p(1)	2,402	2.5	186.4	5.0	195	14,399	385
—o/p(2)	184	0.4	474.1	6.8	2	2,800	40
—s/p(1)	3,888	1.8	39.6	2.5	219	4,953	309
Subtotal	**14,776**	**1.9**	**357.2**	**7.3**	**910**	**169,698**	**3,485**
Total (M+I)	**53,190**	**2.5**	**300.5**	**7.1**	**4,343**	**513,955**	**12,159**
Inferred Mineral Resources							
—u/g(2)	908	1.6	525.1	8.7	47	15,337	254
—o/p(2)	98	3.2	96.7	4.1	10	306	13
Subtotal	**1,007**	**1.8**	**483.2**	**8.2**	**58**	**15,642**	**267**
Total (3R)	**54,197**	**2.5**	**303.9**	**7.1**	**4,400**	**529,598**	**12,425**

(1) Excluding Albazino Project.

Table 3.2ES Mining Assets: Ore Reserve Sensitivity[1]

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	33,535	2.8	327.6	7.9	3,014	353,191	8,468
360	5.60	44,364	2.5	276.2	6.7	3,540	393,953	9,597
450	7.00	50,646	2.3	259.8	6.3	3,818	423,009	10,309
540	8.40	54,754	2.2	246.6	6.0	3,879	434,166	10,546
630	9.80	58,226	2.1	237.8	5.8	3,955	445,251	10,792

(1) Excluding Albazino Project.

Table 3.3ES Mining Assets: Ore Reserve statements as at 1 October 2006

	Tonnage	Grade			Content		
Statistics	**(kt)**	**(Au g/t)**	**(Ag g/t)**	**(Au Eq g/t)**	**(Au koz)**	**(Ag koz)**	**(Au Eq koz)**
Ore Reserves							
Proved							
Dukat Mine	12,779	1.1	560.7	10.1	433	230,359	4,148
Vorontsovskoye Mine	17,834	3.1	4.1	3.1	1,754	2,343	1,772
Lunnoye Mine	624	2.4	372.2	7.8	48	7,471	156
Arylakh Project	1,071	0.9	445.8	7.4	31	15,351	254
Khakanjinskoye Mine	3,713	5.1	251.0	7.7	614	29,962	915
Yurievskoye Project	381	13.4	11.4	13.5	164	140	165
Subtotal	**36,402**	**2.6**	**244.0**	**6.3**	**3,044**	**285,626**	**7,409**
Probable							
Dukat Mine	5,827	1.2	502.9	9.3	218	94,211	1,738
Vorontsovskoye Mine	4,123	1.6	2.4	1.6	215	316	218
Lunnoye Mine	2,278	1.6	340.7	7.0	120	24,950	511
Arylakh Project	589	0.5	518.8	8.0	9	9,822	151
Khakanjinskoye Mine	1,314	4.5	190.6	6.1	190	8,051	259
Yurievskoye Project	4	8.3	8.6	8.3	1	1	1
Subtotal	**14,134**	**1.7**	**302.2**	**6.3**	**753**	**137,351**	**2,879**
Ore Reserves							
Dukat Mine	18,606	1.1	542.6	9.8	651	324,570	5,885
Vorontsovskoye Mine	21,956	2.8	3.8	2.8	1,968	2,659	1,990
Lunnoye Mine	2,902	1.8	347.4	7.1	167	32,421	667
Arylakh Project	1,660	0.8	471.7	7.6	41	25,173	405
Khakanjinskoye Mine	5,027	5.0	235.2	7.3	804	38,013	1,174
Yurievskoye Project	385	13.3	11.4	13.4	165	141	166
Total Ore Reserves	**50,537**	**2.3**	**260.3**	**6.3**	**3,797**	**422,977**	**10,288**
Mineral Resources							
Measured							
Dukat Mine	13,417	1.2	657.4	11.8	534	283,594	5,100
Vorontsovskoye Mine	19,465	3.1	4.4	3.1	1,939	2,741	1,960
Lunnoye Mine	677	2.8	434.3	8.7	61	9,449	189
Arylakh Project	924	1.2	558.1	8.8	37	16,588	261
Khakanjinskoye Mine	3,347	5.9	294.3	8.7	640	31,661	940
Yurievskoye Project	584	11.8	11.9	11.9	222	224	223
Albazino Project	0	0.0	0.0	0.0	0	0	0
Subtotal	**38,414**	**2.8**	**278.7**	**7.0**	**3,433**	**344,257**	**8,674**
Indicated							
Dukat Mine	6,217	1.3	577.7	10.6	265	115,463	2,124
Vorontsovskoye Mine	4,532	1.8	2.7	1.8	261	389	263
Lunnoye Mine	1,999	2.1	476.3	9.0	133	30,613	579
Arylakh Project	767	0.7	589.5	8.7	18	14,533	215
Khakanjinskoye Mine	1,132	5.5	237.8	7.4	201	8,654	271
Yurievskoye Project	130	7.9	10.9	7.9	33	46	33
Albazino Project	4,300	5.6	0.0	5.6	769	0	769
Subtotal	**19,076**	**2.7**	**276.7**	**6.9**	**1,679**	**169,698**	**4,254**
Total Measured + Indicated							
Dukat Mine	19,634	1.3	632.2	11.4	799	399,056	7,224
Vorontsovskoye Mine	23,996	2.9	4.1	2.9	2,200	3,131	2,223
Lunnoye Mine	2,676	2.3	465.7	8.9	194	40,063	768
Arylakh Project	1,691	1.0	572.4	8.8	54	31,121	476
Khakanjinskoye Mine	4,478	5.8	280.0	8.4	841	40,315	1,211
Yurievskoye Project	714	11.1	11.7	11.2	255	269	257
Albazino Project	4,300	5.6	0.0	5.6	769	0	769
Total Measured + Indicated	**57,490**	**2.8**	**278.1**	**7.0**	**5,112**	**513,955**	**12,928**
Inferred							
Dukat Mine	16	1.0	437.5	8.1	1	229	4
Vorontsovskoye Mine	64	2.5	3.4	2.6	5	7	5
Lunnoye Mine	741	1.0	562.7	8.6	24	13,412	206
Arylakh Project	82	1.4	506.5	8.2	4	1,341	22
Khakanjinskoye Mine	77	5.0	258.7	7.1	12	642	18
Yurievskoye Project	26	13.9	14.0	14.1	12	12	12
Albazino Project	2,305	4.4	0.0	4.4	329	0	329
Subtotal	**3,312**	**3.6**	**146.9**	**5.6**	**387**	**15,642**	**596**
Total Mineral Resources							
Dukat Mine	19,650	1.3	632.0	11.4	799	399,286	7,228
Vorontsovskoye Mine	24,060	2.9	4.1	2.9	2,206	3,138	2,229
Lunnoye Mine	3,417	2.0	486.8	8.9	218	53,474	974
Arylakh Project	1,773	1.0	569.3	8.7	58	32,462	498
Khakanjinskoye Mine	4,556	5.8	279.6	8.4	853	40,957	1,229
Yurievskoye Project	740	11.2	11.8	11.3	266	281	268
Albazino Project	6,605	5.2	0.0	5.2	1,098	0	1,098
Total Mineral Resources	**60,802**	**2.8**	**270.9**	**6.9**	**5,498**	**529,598**	**13,523**

4.0ES CONCLUDING REMARKS

4.1ES Mineral Resources and Ore Reserves

The Mineral Resource and Ore Reserve statement as included in this MER includes total Mineral Resources of 13.5Moz gold equivalent (5.5Moz Au and 529.6Moz Ag) contained within a tonnage of 60.8Mt grading 6.9g/t Au Eq (2.8g/t Au; 270.9g/t Ag) and total Ore Reserves of 10.3Moz gold equivalent (3.8Moz Au and 423.0Moz Ag) contained within a tonnage of 50.5Mt grading 6.3g/t Au Eq (2.3 g/t Au; 260.3g/t Ag).

In assessing the potential beyond this, the reader is referred to the various Ore Reserve sensitivities as reflected in Section 5.0 of this MER and SRK's comments regarding the Exploration Projects, specifically Albazino. The Ore Reserve sensitivities, however, are not based on detailed LoMp and should only be considered on a relative basis.

SRK concludes that the Mineral Resources and Ore Reserves as stated herein are compliant with the JORC Code and should these be reported in accordance with Industry Guide 7 they would be identical.

Table 4.1ES presents the results of the Ore Reserve marginality assessment for the Mining assets whereby the current (YTD Q3 2006) cash costs (co-product gold equivalent) are compared with the LoMp weighted averages and the commodity prices required to return the post-tax pre-finance breakeven position at a real terms discount factor of 10% are stated.

Table 4.1ES Mining Asset: Ore Reserve EVA[1]

	Cash Costs		+ NPV	
Mining Asset	**LoMp (US$/oz Eq Au)**	**YTD Q3 2006 (US$/oz Eq Au)**	**Gold Price (US$/oz)**	**Silver Price (US$/oz)**
Dukat Mine	241	333	254	3.95
Vorontsovskoye Mine	244	381	250	3.88
Lunnoye Mine + Arylakh Project	182	67	233	3.62
Khakanjinskoye Mine + Yurievskoye Project	232	192	240	3.73
Company	233	290	263	4.09

(1) The current (YTD Q3 2006) cash costs for Lunnoye Mine is significantly impacted by the toll treatment revenues received from Dukat Mine which is based on the spot commodity prices. The cash costs for Dukat Mine in this period are similarly affected.

4.2ES Risks and Opportunities

The Mining Assets are subject to certain general and specific inherent risks, which apply to some degree to all participants of the international precious metals mining industry. These include:

- **Commodity Price Fluctuations:** These many be influenced, inter alia, by demand for gold and silver in industry and jewellery, actual or expected sales by central banks, sales by gold and silver producers in forward transactions and production cost levels for gold and silver in major producing countries. In the three year period between 1 October 2003 and 30 September 2006 the gold price ranged between US$414/oz and US$661/oz and the silver price ranged between US$6.72/oz and US$12.90/oz (Figure 4.1 and Figure 4.2);
- **Exchange Rate Fluctuations:** Specifically related to the related strength of the US$, the currency in which commodity prices are generally quoted. During the period between 1 October 2003 and 30 September 2006 the US$:RUB exchange rate ranged between 1:26.74 US$:RUB and 1:28.80 US$:RUB. As at 30 September 2006 the US$:RUB exchange rate was 1:26.78;
- **Inflation Rate Fluctuations:** Specifically related to the macro-economic policies of the individual countries. During the period between 1 October 2003 and 30 September 2006, United States CPI ranged between 1.88% and 3.39% reported on a calendar year basis. During the period between 1 October 2003 and 30 September 2006, Russian CPI ranged between 10.9% and 12.0% reported on a calendar year basis;
- **Country Risk:** Specifically country risk including, political, economic, legal, tax, operational and security risks;

- **Legislative Risk:** Specifically changes to future legislation (tenure, mining activity, labour, occupational health, safety and environmental) within Russia;
- **Exploration Risk:** Resulting from the elapsed time between discovery of deposits, development of economic feasibility studies to bankable standards and associated uncertainty of outcome;
- **Mining Risk:** Specifically Mineral Reserve estimate risks, uninsured risks, industrial accidents, labour disputes, unanticipated ground water conditions, human resource management and safety performance;
- **Environmental Risk:** The inability of the Mining Assets to fund the environmental liabilities from estimated operating cashflows, should operations cease prior to that projected in the LoMp. This would result in an unfunded liability since the estimated rehabilitation expenditure is not currently funded. As at 1 October 2006, the Company's environmental liability is estimated at US$19.2m. SRK notes that certain of this risk may be mitigated that no assumptions have been made regarding the ability to generate revenue through recovery of metals or sale of scrap and equipment when reporting this environmental liability;
- **Terminal Benefits Liability Risk:** The inability of the Mining Assets to fund the terminal benefits liabilities from estimated operating cashflows, should operations cease prior to that projected in the LoMp. This would result in an unfunded liability since the estimated terminal benefits expenditure is not currently funded. As at 1 October 2006, the Company's terminal benefits liability is estimated at US$17.0m (Table 10.4); and
- **Development Project Risk:** Specifically technical risks associated with brown fields expansions for which Feasibility Studies have been completed but for which construction, development and production has not commenced.

In addition to those stated above, the Mining Assets are subject to certain specific risks and opportunities, which independently may not be classified to have material impact (that is likely to affect more than 10% of the Tax Entities annual re-tax profits), but in combination may do so. Accordingly the Ore Reserves EVA as presented above should be considered in conjunction with the following risks and opportunities:

Notwithstanding this statement SRK note that the principal issues as they relate to each of the Mining Assets are:

- The risk that operational improvements are not achieved and unit cash costs continue at current levels, specifically at:
  - Dukat Mine in respect of metallurgical recoveries for gold (currently 76.9%, planned 79.6% in 2007) and silver (currently 84%, planned 87% in 2008) and unit mining costs,
  - Vorontsovskoye Mine in respect of: the metallurgical recoveries at the Heap Leach Facility for gold (currently 56.2%, planned 79.6% in 2007) and silver (currently 12.2%, planned 34.5% in 2007); the metallurgical recoveries at the CIP Facility for gold (currently 77.4%, planned 83.4% in 2007) and silver (currently 37.6%, planned 46.5% in 2007); mining rates for both ore and waste;
- The risk that the brownfields development projects are not achieved as forecasted, specifically at:
  - Dukat in respect of the projected increase in mining rate at the underground operations,
  - Vorontsovskoye in respect of the projected increase in throughput at the CIP Facility,
  - Lunnoye in respect of the underground mining operations at Lunnoye Mine and the open-pit mining operations at Arylakh Project,
  - Khakanjinskoye in respect of the open pit mining operations at Yurievskoye Project and the underground mining operations at Khakanjinskoye Mine,
- The opportunity to increase Ore Reserves, specifically at:
  - Dukat Mine by consideration of higher long term commodity prices and exploration potential at the Dukat Ore Field License and the Dukat Prospective Area,
  - Vorontsovskoye Mine by consideration of higher long term commodity prices and exploration potential at the Katasminskaya Prospect, the Rudnichniy Prospect and the Galkinskaya Prospect,

- Lunnoye Mine by: consideration of higher long term commodity prices; exploration potential at the Katasminskaya Prospect, the Rudnichniy Prospect and the Galkinskaya Prospect; development of a LoMp for Lunnoye 5 and Lunnoye 6; upgrading of the currently classified Inferred Mineral Resources at the Lunnoye Mine and the Arylakh Project,
- Khakanjinskoye Mine by consideration of higher long term commodity prices; exploration potential at the Arkinskaya Prospect; development of a LoMp for underground operations at Arylakh Mine;
- Albazino Project by completion of further exploration and technical studies, specifically increasing the Mineral Resource base by 2009; and

- The opportunity to advance the Exploration Projects, specifically at:
  - The APU Prospect in the Chita Region,
  - The Fevralskoye and Reftinskaya Prospects in the Sverdlovsk Region,
  - The Anenskoye Prospect in the Krasnoyarsk Territory.

Furthermore SRK has been informed that the Company intends to use the proceeds of the Offer to:

- Repay existing indebtedness of approximately US$250m to US$300m;
- Fund approximately US$12m of cash contributions to the AngloGold Ashanti strategic alliance; and
- Fund US$20m repayment of the debt owed by the Company to Pan American Silver in conjunction with the Company's acquisition of the minority interest in Dukat.

Figure 4.1ES Gold Price: historical and forecast statistics in US$/oz real (1 October 2006) and nominal and three year monthly average (nominal)

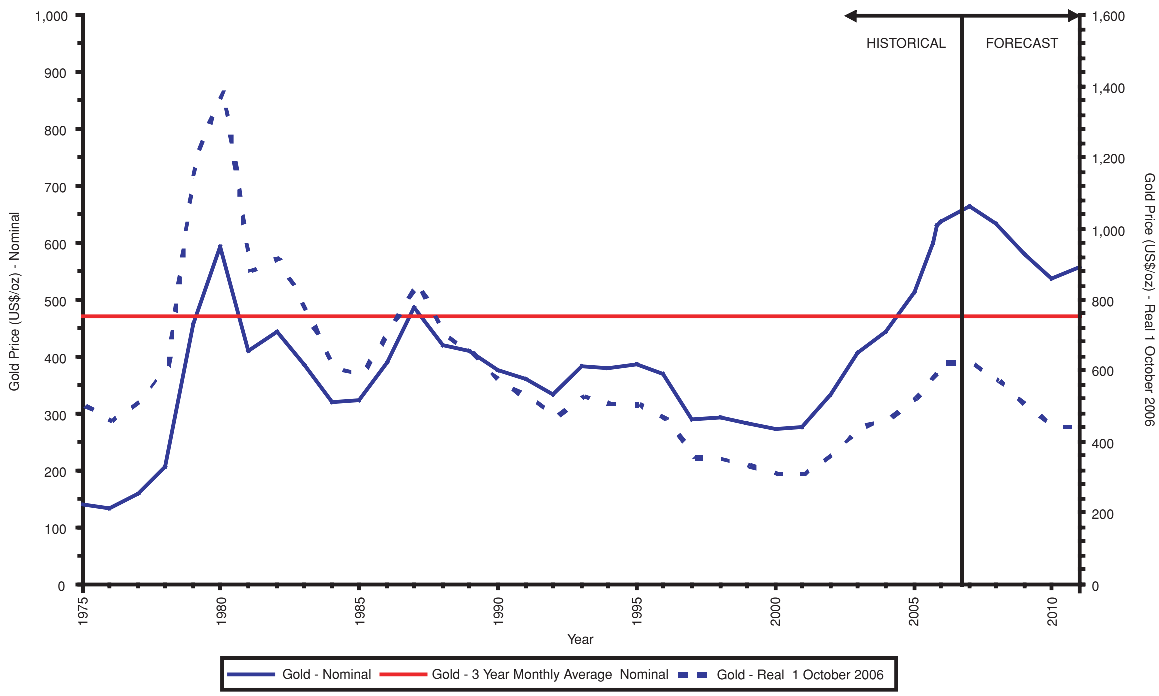
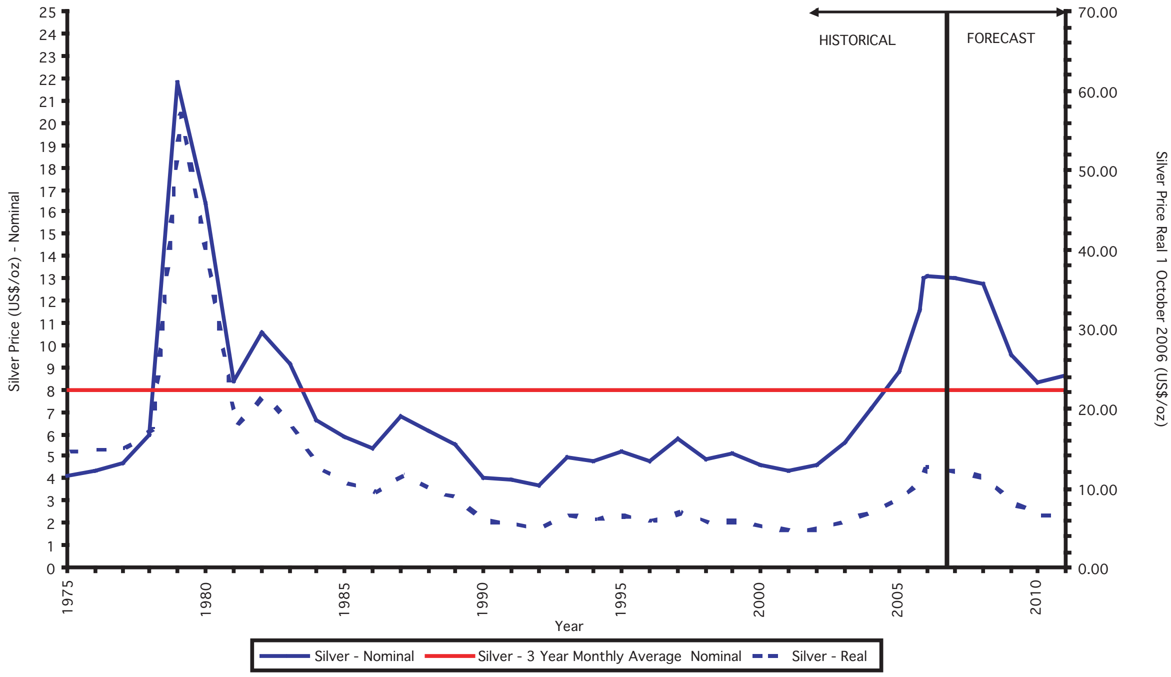


Figure 4.2ES Silver Price: historical and forecast statistics in US$/oz real (1 October 2006) and nominal and three year monthly average (nominal)



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AN INDEPENDENT MINERAL EXPERTS' REPORT ON THE MINING ASSETS OF OJSC POLYMETAL

1 INTRODUCTION

1.1 Background

SRK Consulting (UK) Limited ("SRK") is an associate company of the international group holding company, SRK Global Limited (the "SRK Group"). SRK has been commissioned by the board of directors of OJSC Polymetal ("Polymetal" also referred to as the "Company") to prepare an independent mineral experts' report ("MER") on the mining and exploration assets (the "Mining Assets") of the Company. The majority of the Mining Assets: subdivided into operating mines, projects and exploration properties: has been reviewed by SRK are as presented in Table 1.1 below:

Table 1.1 Mining Assets[(1),(2)]

Asset Type	Holding Subsidiary[(3)]	Type	Equity (%)
Operating Mines			
Dukat	Magadan Silver	o/p, u/g	100%
Vorontsovskoye	Northern Urals Gold	o/p	100%
Lunnoye	Silver Territories	o/p, u/g[(4)]	100%
Khakanjinskoye	Okhotsk	o/p, u/g[(5)]	100%
Projects			
Arylakh	Silver Territories	o/p[(6)]	100%
Yurievskoye	Okhotsk	o/p[(7)]	100%
Albazino[(8)]	Resource Albazino	o/p	100%
Exploration Property			
Dukat Prospective Area	Magadan Silver	n/d	100.0%
Dukat Ore Field	Magadan Silver	n/d	100.0%
APU Project[(9)]	Imitzoloto	o/p	100.0%
Anenskoye Prospect[(10)]	Yenisey	n/d	100.0%
Katasminskaya Prospect	Northern Urals Gold	o/p	100.0%
Galkinskaya Prospect	Northern Urals Gold	o/p	100.0%
Rudnichniy Prospect	Northern Urals Gold	o/p	100.0%
Fevralskoye Prospect	Aurum	n/d	85.0%
Khakarinskaya Prospect	Georazvedka	n/d	100.0%
Arkinskaya Prospect[(11)]	Georazvedka	o/p	100%

(1) Additional details regarding title and title conditions are included in Section 2.0 of this MER.

(2) o/p—open-pit; u/g—underground; and n/d—not determined.

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2006

BS/EN/ISO 9001 EQA 521 UKAS QUALITY MANAGEMENT 047

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SRK Consulting (UK) Limited Reg No 1575403 (England and Wales)

Offices in
Asia,
Australia,
North America,
South Africa,
South America

(3) Holding subsidiaries are: CJSC Magadan Silver ("Magadan Silver"); CJSC Northern Urals Gold ("Northern Urals Gold"); CJSC Silver Territory ("Silver Territories"); OJSC Okhotsk Mining and Geological Company ("Okhotsk"); CJSC Georazvedka ("Geroazvedka"); CJSC Yenisey Mining and Geological Company ("Yenisey"); LLC Imitzoloto ("Imitzoloto"); LLC Resource Albazino ("Resource Albazino"); and CJSC Aurum ("Aurum").

(4) Underground mining operation planned to commence production in 2008.

(5) Underground mining operation planned to commence production in 2011.

(6) Open-pit mining operation planned to commence production in 2007.

(7) Open-pit mining operation planned to commence production in 2013.

(8) Scoping study completed, pre-feasibility study to commence in 2007. Mineral Resource statement audited in respect of JORC Code compliance by Snowden Mining Industry Consultants Pty Limited, part of Roche Mining MT ("Roche") the wholly owned mining division of Downer EDI Limited a public company listed on the Australian Stock Exchange.

(9) The APU Project comprises: the Talovy Prospect; the Rudni Prospect; the Peshkovsky Prospect and the Aprelkovsko Prospect.

(10) The APU Project and the Anenskoye Prospect is the subject of the proposed strategic alliance between the Company and AngloGold Ashanti Limited. These in addition to a US$12m cash commitment represent the Company's contribution to acquire a 50% interest in the proposed strategic alliance. AngloGold Ashanti Limited has contributed the Veduga Prospect and the Bogunay Prospect representing its' 50% contribution. Neither the Veduga Prospect nor the Bogunay Prospect has been reviewed by SRK.

(11) Not reviewed by SRK.

In addition to the above SRK has reviewed the operating expenditures associated with the provision of management and support services from the Company's Head Office which is held via OJSC Polymetal Management ("Polymetal Management").

SRK notes that the Company has (December 2006) entered into a joint venture agreement with Mongolrostsvetmet in which the Company will have a 50% interest in the Asgat polymetallic silver deposit located in northwest Mongolia. SRK has not reviewed any technical information relating to this asset.

Further, the Company has various additional companies which include other assets not reviewed by SRK, these are: LLC Trading House Polymetal (logistics and maintenance); LLC Polymetal Finance (Financing and trading); CJSC Polymetal Engineering (Research and Engineering); LLC Dukat Exploration; LLC Northern Urals Exploration; LLC Northern Urals Mining Company; LLC Tekhnometall; and CJSC Mining Ore Company Dukat. SRK has been informed that the assets and/or services as provided by these companies are not considered material in respect of the Mining Assets which are the subject matter of this MER. SRK has been informed that the Company has no other material Mining Assets held through holdings in Direct Subsidiaries, Indirect Subsidiaries, Joint Ventures (Direct and Indirect) and Associate Companies (Direct and Indirect).

This MER assumes that the corporate structure as well as the equity participation represented in Table 1.1 is effective as at 1 October 2006.

For the purpose of the reliance statements in Section 1.4 of this MER, reliance was sought from the Company, as appropriate for the relevant Mining Assets, and reference to the Company should be construed as such.

1.2 Requirement, Structure and Compliance

1.2.1 Requirement

This MER has been prepared by SRK and will be included in the prospectus (the "Prospectus") to be published by the Company in connection with a simultaneous offering of global depository receipts ("GDRs") and ordinary shares ("Ordinary Shares"): the "Securities" in the Company and the proposed admission of the GDR's of the Company to the Official List maintained by the Financial Services Authority ("FSA") and the admission of such shares to trading on the London Stock Exchange plc's (the "LSE") market for listed securities (the "Offer").

SRK has also been informed that the associated Ordinary Shares (See Prospectus) will be listed on the Russian Trading System ("RTS") and the Moscow Interbank Currency Exchange ("MICEX").

The MER has been prepared in accordance with the following rules and recommendations (hereinafter referred to as the "Rules"):

- The Prospectus Rules (the "Prospectus Rules") published by the FSA from time to time and governed by the United Kingdom Listing Authority ("UKLA");
- The Prospectus Directive (the "Prospectus Directive") published by the FSA from time to time and governed by the UKLA; and

- "CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses No. 909/2004", published in January 2005: specifically paragraphs 131 to 132, section 1b—Mineral Companies, hereinafter referred to as the "CESR Recommendations".

This MER does not contain a valuation of the Mining Assets of the Company, accordingly this MER does not constitute a competent person's report within the meaning of Chapter 19 of the UKLA's Listing Rules as it existed on June 30, 2005 (prior to its deletion upon the implementation in the UK on July 1, 2005 of the Prospectus Directive).

This MER is addressed to the Company, the Joint Global Co-ordinators and Joint Bookrunners and other Managers (Deutsche Bank AG, Merrill Lynch International, UBS Limited, and other managers of the offering by the Company, hereinafter referred to as the "Managers") hereinafter referred to as the "Financial Advisors"); Skadden, Arps, Slate, Meagher & Flom LLP, the legal advisors to the Company; and Cleary Gottlieb Steen & Hamilton LLP, the legal advisors to the Managers.

Drafts of the MER were provided to the Company, but only for the purpose of confirming both the accuracy of factual information and the reasonableness of assumptions relied upon in this MER.

1.2.2 Structure

The Mining Assets comprise four gold and silver mining operations; three projects and 10 Exploration Properties. In general, the operating mines and the projects are substantially similar and represent the larger contribution to the Mining assets. This MER has been structured on a discipline basis where technical descriptions include: Geology, Mineral Resources and Mineral Reserves, Mining, Metallurgical Processing, Tailings Storage Facilities, Infrastructure, Human Resources, Occupational Health and Safety, and Environmental Management. All entries, including text, tables and other data, are quoted assuming 100% ownership.

For reporting purposes the assessment of the economic viability of the Ore Reserves, the Mining Assets has been grouped in accordance with the following Tax Entities, hereinafter referred to as the "Tax Entities":

- Dukat;
- Vorontsovskoye;
- Lunnoye; and
- Khakanjinskoye.

1.2.3 Compliance

This MER has been prepared in accordance with the Rules. Specifically, the standard adopted for the reporting of the Mineral Resources and Ore Reserve statements for the Mining Assets are that defined by the terms and definitions given in The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. The JORC Code is considered a mineral resource and ore reserve reporting code which is acceptable to the FSA.

This MER has been prepared under the direction of the Competent Persons' (the "CPs", see Section 1.7 of this MER) as defined by the JORC Code who assume overall professional responsibility for the Mineral Resource and Ore Reserve statements as presented herein. The MER however is published by SRK, the commissioned entity, and accordingly SRK assumes responsibility for the MER.

Notwithstanding the above, SRK notes that Rules (specifically Paragraph 133(c) of the CESR Recommendations) state that the specific contents of a MER should be agreed with the Competent Authority, in this instance the UKLA. SRK has not been given any detailed guidelines in this regard and has considered the "Guidance note for Mining, Oil and Gas Companies, March 2006": specifically the content requirements at Appendix 2 and the summaries set out in Appendices 1 and 3 (a document published by the LSE in accordance with the AIM Rules of the LSE.

For the purpose of Prospectus Rule 5.5.3R(2)(f) SRK is responsible for the MER, and published as part of the Prospectus and declares that it has taken all reasonable care to ensure that the information contained in this report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 of the Prospectus Rules.

Notwithstanding the above SRK notes the following:

- A detailed statement of all legal proceedings relevant to the Mining Assets or an appropriate negative statement has been included in the Prospectus;
- Brief summaries of the Company's existing and proposed directors are included in the Prospectus and details relating to qualifications of key technical and managerial staff have been excluded from this MER for practical purposes of volume; and
- SRK has during the course of its investigations reviewed technical plans in order to support its opinions on the geology, Mineral Resource and Ore Reserves, mining schedules and processing facilities, land holdings, lease areas and surface infrastructure. Due to volume and scale of these plans it is not appropriate to include detailed copies for all technical aspects relating to the Mining Assets into this MER.

SRK confirms that the presentation of information contained elsewhere in the Prospectus which relates to information in the MER and is accurate, balanced and not inconsistent with the MER.

SRK notes that this MER has undergone regulatory review. SRK understands that the Company's Advisors will also conduct an internal review of this MER.

1.3 Effective date and Base Technical Information date

The effective date (the "Effective Date") of this MER is deemed to be 1 October 2006. To the knowledge of SRK, as informed by the Company, there has been no material change in respect of the Mining Assets since 1 October 2006. The Mineral Resources and Ore Reserves of the Mining Assets are dependent upon the following:

- Technical information as generated by the Company in accordance with its annual planning process defined as the Base Information Date ("BID"), which is 01 January 2006; and
- Appropriate adjustments made by SRK to technical information which inter alia includes any additional material information provided by the Company from the BID to the Effective Date.

1.4 Verification, Validation and Reliance

This MER is dependent upon technical, financial and legal input. In respect of the technical information as provided to and taken in good faith by SRK, this has not been independently verified by means of re-calculation. SRK has, however, conducted a review and assessment of all material technical issues likely to influence the future performance of the Mining Assets, which included the following:

- Inspection visits to the Mining Assets' mining and processing facilities, surface structures and associated infrastructure undertaken most recently October 2006;
- Discussion and enquiry following access, to key project and head office personnel between June 2006 and December 2006;
- An examination of historical information (2003, 2004, 2005 and 2006$^{(H1+Q3)}$) and results made available by the Company in respect of the Mining assets;
- A review and where considered appropriate by SRK, modification of the Company's production forecasts contained in the Life-of-Mine plans ("LoMp");

SRK has also:

- Assumed certain macro-economic parameters and commodity prices and relied on these as inputs to assess the viability of the Ore Reserves of the Company; and
- Satisfied itself that such information is both appropriate and valid for the Ore Reserve economic viability assessment as reported herein.

Where fundamental base data have been provided (LoMp, capital expenditures, operating budgets etc) for the purposes of review, SRK has performed all necessary validation and verification procedures deemed appropriate in order to place an appropriate level of reliance on such information.

1.4.1 Technical Reliance

SRK places reliance on the Company and its technical representatives that all technical information provided to SRK as at 1 October 2006 is accurate. The technical representative for the Company's Mineral Resources and Ore Reserves is Mr Vladimir T Ryabukhin who is the Deputy General Director for Mineral Resources responsible for technical matters in respect of Mineral Resources and Ore Reserves at the Company and has 36 years experience in the mining industry.

1.4.2 Financial Reliance

In consideration of all financial aspects relating to the Mining Assets and the Ore Reserves viability assessment, SRK has placed reliance on the Company that the following information for the Tax Entities is appropriate as at 1 October 2006:

- The structures for the various tax entities;
- Unredeemed capital balances;
- Assessed losses;
- Depreciation;
- Opening balances for debtors, creditors and stores;
- Working capital logic;
- Price transfer mechanisms for toll treatment between the Dukat and Vorontsovskoye; and
- Taxation (corporate, social, value added, royalty, property) logic.

The financial information referred to above has been prepared under the direction of Mr Sergey A Cherkashin and ZAO PricewaterhouseCoopers Audit (the "Auditors") on behalf of the Board of Directors of the Company. Mr Cherkashin is the Chief Financial Officer of the Company and has 10 years experience in financial management.

1.4.3 Legal Reliance

In consideration of all legal aspects relating to the Mining Assets, SRK has placed reliance on the representations by the Company that the following are correct as at 1 October 2006 and remain correct until the date of the document:

- That save as disclosed in the Prospectus, the Directors of the Company are not aware of any legal proceedings that may have an influence on the rights to explore for minerals;
- That the legal ownership of all mineral and surface rights has been verified; and
- That save expressly mentioned in the Risk Factors of the main body of the prospectus that no significant legal issue exists which would affect the likely viability of the Mining Assets and/or on the estimation and classification of the Mineral Resources and Ore Reserves as reported herein.

The legal representatives of the Company are Skadden, Arps, Slate, Meagher & Flom LLP.

1.5 Ore Reserve Economic Viability Assessment

The assessment of the economic viability of the Ore Reserves for Mining Assets is based upon the following:

- The LoMp as provided;
- The generation of post-tax pre-finance cashflow models (the "Financial Models") commencing 1 October 2006 and assessed in financial years ending 31 December) derived from the underlying LoMp, the associated Technical Economic Parameters ("TEPs") and the commodity prices as included in Table 1.2 below; and
- In respect of the Mining Assets, SRK has undertaken a break even analysis in order to assess the economic viability of the accompanying Ore Reserve statements (hereinafter referred to as the Ore

Reserves economic viability assessment—"Ore Reserves EVA"). This includes the commodity price which:

– is equivalent to the weighted average LoMp real terms total costs;

– reflects the current ($2006^{(H1+Q3)}$) cash costs; and

– is required to return a zero NPV at a real terms discount factor of 10%.

- Real and Nominal commodity prices for gold and silver derived inflating the real terms (1 October 2006) forecasts derived from consensus market forecasts and the Company's view of the long term prices for gold and silver (the prices at which the Ore Reserves are stated);
- Consumer Price Indices ("CPI") for the Russian Federation ("Russia") the United States;
- Russian Federation Rouble ("RUB") exchange rates quoted against a denomination of one United States Dollar ("US$");
- Nominal exchange rates for the RUB projected assuming the principal of purchase price parity ("PPP");
- The Ore Reserve statements as published by the Company for the period ending 30 September 2006 which are based on a gold price of US$450/oz and a silver price of US$7.00/oz.
- As at 30 September 2006, the gold price and the silver price was US$599.5/oz and US$11.55/oz respectively and the exchange rate was 26.78 RUB to one US$. As at 30 September 2006, the historical average three year price for gold and silver, based on closing monthly averages was US$471/oz and US$7.97/oz respectively.

Table 1.2 Base Case commodity price and macro-economic projections(1),(2),(3)

Parameter	Units	2006	2007	2008	2009	2010	2011
Commodity Prices—Real							
Gold	(US$/oz)	629	629	579	508	450	450
Silver	(US$/oz)	13.00	12.39	11.61	8.38	7.00	7.00
Commodity Prices—Nominal							
Gold	(US$/oz)	636	662	635	580	536	558
Silver	(US$/oz)	13.14	13.05	12.74	9.58	8.33	8.68
Macro-Economics							
US CPI	(%)	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
RF CPI	(%)	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
Exchange Rate—Real	(US$:RUB)	27.00	27.00	27.00	27.00	27.00	27.00
Exchange Rate—Nominal	(US$:RUB)	27.36	28.78	30.28	31.85	33.50	35.24

(1) All commodity prices and exchange rates are quoted at the closing period of 31 December.

(2) CPI rates for 2006 are annualised.

1.6 Limitations, Reliance on Information, Declaration, Consent and Copyright A10.23.1

1.6.1 Limitations

Save for the responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law SRK does not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this MER or statements contained therein, required by and given solely for the purpose of complying with item 23.1 of Annex 1 to the Prospectus Directive, consenting to its inclusion in the Prospectus.

The Company has confirmed in writing to SRK that to its knowledge the information provided by it (when providing) was complete and not incorrect or misleading in any material respect. SRK has no reason to believe that any material facts have been withheld and the Company has confirmed in writing to SRK that it believes it has provided all material information.

The achievability of the LoMp are neither warranted nor guaranteed by SRK. The LoMp as discussed herein have been proposed by the Company's management and adjusted where appropriate by SRK, and cannot be assured; they are necessarily based on economic assumptions, many of which are beyond the control of the Company. Future cash flows and profits derived from such forecasts are inherently uncertain and actual results may be significantly more or less favourable.

1.6.2 Reliance on Information

SRK believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinions presented in the MER. The preparation of a MER is a complex process and does not lend itself to partial analysis or summary.

In particular, the Ore Reserve EVA is based on expectations regarding the commodity prices and exchange rates prevailing at the date of this report. These and the underlying TEPs can change significantly over relatively short periods of time. Should these change materially the results of the Ore Reserve EVA could be materially different in these changed circumstances. Further, SRK has no obligation or undertaking to advise any person of any change in circumstances which comes to its attention after the date of this MER or to review, revise or update the MER or opinion.

1.6.3 Declaration

SRK will receive a fee for the preparation of this report in accordance with normal professional consulting practice. This fee is not contingent on the outcome of the Offer and SRK will receive no other benefit for the preparation of this report. SRK does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Mineral Resources, the Ore Reserves and the LoMp.

Neither SRK, the Competent Persons nor any Directors of SRK have at the date of this report, nor have had within the previous two years, any shareholding in the Company, the Mining Assets or advisors of the Company. Consequently, SRK, the Competent Persons and the Directors of SRK consider themselves to be independent of the Company.

In this MER, SRK provides assurances to the Board of Directors of the Company that the TEPs, including production profiles, operating expenditures and capital expenditures, of the Mining Assets as provided to SRK by the Company and reviewed and where appropriate modified by SRK are reasonable, given the information currently available.

This report includes technical information, which requires subsequent calculations to derive subtotals, totals and weighted averages. Such calculations may involve a degree of rounding and consequently introduce an error. Where such errors occur, SRK does not consider them to be material.

1.6.4 Consent

SRK has given and has not withdrawn its written consent to the inclusion of its MER set out in "Appendix 1: Mineral Expert's Report" and references to its report and its name in the form and context in which they are respectively included and has authorised the contents of its report and context in which they are respectively included and has authorised the contents of its report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004.

Subject to the foregoing, neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of SRK as to the form and context in which it appears.

1.6.5 Copyright

Copyright of all text and other matter in this document, including the manner of presentation, is the exclusive property of SRK. It is an offence to publish this document or any part of the document under a different cover, or to reproduce and/or use, without written consent, any technical procedure and/or technique contained in this document. The intellectual property reflected in the contents resides with SRK and shall not be used for any activity that does not involve SRK, without the written consent of SRK.

1.6.6 Disclaimers and Cautionary Statements for US Investors

The United States Securities and Exchange Commission (the "SEC") permits mining companies, in their filings with the SEC, to disclose only those mineral deposits that a company can economically and legally extract or produce from. Certain terms are used in this report, such as "resources", that the SEC guidelines strictly prohibit companies from including in filings.

Ore Reserve estimates are based on many factors, including, in this case, data with respect to drilling and sampling. Ore Reserves are derived from estimates of future technical factors, future production costs, future capital expenditure, future product prices and the exchange rate between the RUB and the US$. The Ore Reserve estimates contained in this report should not be interpreted as assurances of the economic life of the Mining Assets or the future profitability of operations. As Ore Reserves are only estimates based on the factors and assumptions described herein, future Ore Reserve estimates may need to be revised. For example, if production costs increase or product prices decrease, a portion of the current Mineral Resources, from which the Ore Reserves are derived, may become uneconomical to recover and would therefore result in lower estimated Ore Reserves.

The LoMp and the TEPs include forward-looking statements. These forward-looking statements are necessarily estimates and involve a number of risks and uncertainties that could cause actual results to differ materially.

1.7 Qualifications of Consultants

The SRK Group comprises 600 staff, offering expertise in a wide range of resource engineering disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project. This permits the SRK Group to provide its clients with conflict-free and objective recommendations on crucial judgment issues. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, MERs and independent feasibility evaluations to bankable standards on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group has also worked with a large number of major international mining companies and their projects, providing mining industry consultancy service inputs. SRK also has specific experience in commissions of this nature.

This MER has been prepared based on a technical and economic review by a team of 12 consultants sourced from the SRK Group's offices in the United Kingdom and South Africa over a three-month period. These consultants are specialists in the fields of geology, resource and reserve estimation and classification, underground and open pit mining, rock engineering, metallurgical processing, hydrogeology and hydrology, tailings management, infrastructure, environmental management and mineral economics.

The individuals who have provided input to this MER, who are listed below, have extensive experience in the mining and smelting industry and are members in good standing of appropriate professional institutions.

- Alwyn Annels, CEng., FIMMM, BSc, PhD;
- Christopher Wilson, MAusIMM, PhD;
- Dave Pattinson, C.Eng, MIMMM, PhD;
- Fiona Cessford, C-Bio (UK), PrSciNat, MSc;
- Ian Brackley, CEng, MICE, MIMMM, FSAIMM, BSc, PhD;
- Iestyn Humphreys, MIMMM, AIME, PhD;
- John Arthur, CEng., FGS, MIMMM, PhD;
- James Gilbertson FGS, BSc, MSc;
- Mark Campodonic, FGS, AIQ, MSc;
- Mark Dodds-Smith, C-Bio, PhD;
- Paul Riley, CEng, MIChem, FIMMM, BSc(Tech); and
- Tayfun Gurdal, CGE (Turkey), BSc, MSc

The Competent Person with overall responsibility for reporting of Mineral Resources is Dr Michael Armitage, CGeol, CEng, FGS, MIMMM, PhD who is an employee of SRK. Dr Michael Armitage is a mining geologist with 20 years experience in the mining industry and has been responsible for the reporting of Mineral Resources on various properties internationally during the past five years.

The Competent Person with overall responsibility for reporting of Ore Reserves is Mr John Miles CEng, MIMMM, MSc who is an associate of SRK. Mr John Miles is a mining engineer with 20 years experience in the mining industry and has been involved in the reporting of Ore Reserves on various properties internationally during the past five years.

2 THE MINING ASSETS

2.1 Introduction

This section gives an overview of the Company and its Mining Assets including historical company development, location and property description and historical (2003, 2004, 2005, 2006$^{(H1+Q3)}$) operating results. Specifically where reference is made to legal compliance (in respect of title) within the regulatory environments in which the Company operates, SRK has placed reliance on the Company.

The historical production and expenditure statistics as reported in this section have on an asset by asset basis, unless otherwise stated been derived from the Company's management accounts and on-mine statistics. These in addition to historical information reported in other technical sections of this MER may differ from the Company's published financial statements which are subject to equity reporting principles or such adjustments which may be included for public domain reporting. Furthermore the cash cost statistics are reported on the basis of metals produced and not metal sold. Therefore the historical information as presented may not be directly comparable with similar information as presented in the main body of the Prospectus.

SRK further note that the metal produced will include movements in work-in-progress and other refinery adjustments. This will result in different calculations of metallurgical recovery as presented in Section 7.0 of this MER.

Cash costs as reported in this MER have been standardised on a gold co-product basis with gold equivalent as the denominator. In recognition that the operating mines producing both gold and silver in varying proportions, SRK has also included cash costs on the following basis: silver co-product; gold by-product; silver by-product.

2.2 Polymetal—Corporate Structure and Business Structure, History and Strategy

2.2.1 Corporate and Business Structure

The Company intends become a public listed company, the primary listing of which will be on the LSE. In addition to listing its Securities on the LSE, the Company will also list on the RTS and MICEX. The principal executive offices of the Company are located at 2, Prospect, Narodnogo Opolchenyia, St Petersburg, 198216, Leningrad Region, North-Western Federal District, Russian Federation. The Company also has regional representative and supply chain management offices in Magadan and Khabarovsk.

The Company and its subsidiaries conduct open-pit and underground gold and silver mining and related activities, including exploration, development, and operation of gold and silver mines, metallurgical processing, and smelting. It currently has four operating mines, three projects (two of which are at feasibility study level); and 10 exploration projects comprising 14 exploration prospects.

Polymetal acts as a holding company and derives its revenues entirely from the operations of its subsidiaries. The Company's mining operations are conducted through its production subsidiaries, which hold the production and exploration licences for its mines. The Company's exploration and development activities are conducted through its exploration subsidiaries, which hold licences for stand-alone exploration projects such as Albazino, and its production subsidiaries, which hold licences for regional exploration campaigns. Polymetal Management provides management services to each of the Company's subsidiaries. CJSC Polymetal Engineering ("Polymetal Engineering") provides research and engineering services to the Company's production and exploration subsidiaries as well as to third parties. LLC Trading House Polymetal ("Polymetal Trade House") provides logistical, supply, purchasing and maintenance services to each of the Company's subsidiaries.

The subsidiaries comprise Open Joint Stock Companies ("OJSC"), Closed Joint Stock Companies ("CJSC") and Limited Liability Companies ("LLC"). All subsidiaries bar one exploration Company are wholly owned and in addition the Company holds 50% interests in Joint Ventures and has entered into a strategic alliance with AngloGold Ashanti Limited ("AngloGold Ashanti").

As of 1 October 2006 the Company's principal subsidiaries comprised four production subsidiaries, five exploration subsidiaries, a management subsidiary, and engineering and scientific research subsidiary and a logistics and maintenance subsidiary:

- **Production Subsidiaries:**
  - **Magadan Silver:** A 100% owned subsidiary involved in exploration and mining, specifically Dukat Mine, Dukat Prospective Area and Dukat Ore Field,
  - **Northern Urals Gold:** a 100% owned subsidiary involved in exploration and mining, specifically Vorontsovskoye Mine, Katasminskaya Prospect, Galkinskaya Prospect and Rudnichniy Prospect,
  - **Silver Territories:** A 100% owned subsidiary involved in exploration and mining, specifically Lunnoye Mine and Arylakh Project,
  - **Okhotsk:** A 100% owned subsidiary involved in exploration and mining, specifically Khakanjinskoye Mine, Yurievskoye Project;
- **Exploration Subsidiaries:**
  - **Georazvedka:** A 100% owned subsidiary involved in exploration, specifically Khakarinskaya Prospect, and Arkinskaya Prospect,
  - **Yenisey:** A 100% owned subsidiary involved in exploration, specifically Anenskoye Prospect,
  - **Imitzoloto:** A 100% owned subsidiary involved in exploration, specifically APU Project comprising Talovy Prospect, Rudni Prospect and the Aprelkovsko-Peshkovsky Prospect,
  - **Resource Albazino:** A 100% owned subsidiary involved in exploration, specifically Albazino Project,
  - **Aurum:** A 85% owned subsidiary involved in exploration, specifically Fevralskoye Prospect; and
- **Service Subsidiaries (wholly owned):** Polymetal Management; Polymetal Engineering; and Polymetal Trade House.

In addition the Company has 100% holdings in: LLC Polymetal Finance ("Polymetal Finance"); LLC Dukat Exploration ("Dukat Exploration"); LLC Northern Urals Exploration ("Northern Urals Exploration"); LLC Northern Urals Mining Company ("Northern Urals Mining Company"); LLC Tekhnometall ("Tekhnometall"); and CJSC Mining Ore Company Dukat ("Mining Ore Company Dukat").

Based on the results for the period ending 31 December 2005, the Company is ranked as the world's 5th largest producer of silver; the world's largest producer of primary silver and the third largest gold producer in Russia. As at 30 September 2006, the Company reported total Ore Reserves containing approximately 3.8Moz of gold and 423.0Moz of silver (Table 2.1).

As of 30 September 2006, the Company employed approximately 4,800 employees, of which 8.1% were based in St. Petersburg and its representative offices, 82.4% were based at its four operating mines and 9.5% were employed at its specialised exploration contractors or stand-alone exploration and development projects.

Table 2.1 Company: Mineral Resource and Ore Reserve statements as at 1 October 2006

	Tonnage	Grade			Content		
Statistics	**(kt)**	**(Au g/t)**	**(Ag g/t)**	**(Au Eq g/t)**	**(Au koz)**	**(Ag koz)**	**(Au Eq koz)**
Ore Reserves							
Proved							
Dukat Mine	12,779	1.1	560.7	10.1	433	230,359	4,148
Vorontsovskoye Mine	17,834	3.1	4.1	3.1	1,754	2,343	1,772
Lunnoye Mine	624	2.4	372.2	7.8	48	7,471	156
Arylakh Project	1,071	0.9	445.8	7.4	31	15,351	254
Khakanjinskoye Mine	3,713	5.1	251.0	7.7	614	29,962	915
Yurievskoye Project	381	13.4	11.4	13.5	164	140	165
Subtotal	**36,402**	**2.6**	**244.0**	**6.3**	**3,044**	**285,626**	**7,409**
Probable							
Dukat Mine	5,827	1.2	502.9	9.3	218	94,211	1,738
Vorontsovskoye Mine	4,123	1.6	2.4	1.6	215	316	218
Lunnoye Mine	2,278	1.6	340.7	7.0	120	24,950	511
Arylakh Project	589	0.5	518.8	8.0	9	9,822	151
Khakanjinskoye Mine	1,314	4.5	190.6	6.1	190	8,051	259
Yurievskoye Project	4	8.3	8.6	8.3	1	1	1
Subtotal	**14,134**	**1.7**	**302.2**	**6.3**	**753**	**137,351**	**2,879**
Ore Reserves							
Dukat Mine	18,606	1.1	542.6	9.8	651	324,570	5,885
Vorontsovskoye Mine	21,956	2.8	3.8	2.8	1,968	2,659	1,990
Lunnoye Mine	2,902	1.8	347.4	7.1	167	32,421	667
Arylakh Project	1,660	0.8	471.7	7.6	41	25,173	405
Khakanjinskoye Mine	5,027	5.0	235.2	7.3	804	38,013	1,174
Yurievskoye Project	385	13.3	11.4	13.4	165	141	166
Total Ore Reserves	**50,537**	**2.3**	**260.3**	**6.3**	**3,797**	**422,977**	**10,288**
Mineral Resources							
Measured							
Dukat Mine	13,417	1.2	657.4	11.8	534	283,594	5,100
Vorontsovskoye Mine	19,465	3.1	4.4	3.1	1,939	2,741	1,960
Lunnoye Mine	677	2.8	434.3	8.7	61	9,449	189
Arylakh Project	924	1.2	558.1	8.8	37	16,588	261
Khakanjinskoye Mine	3,347	5.9	294.3	8.7	640	31,661	940
Yurievskoye Project	584	11.8	11.9	11.9	222	224	223
Albazino Project	0	0.0	0.0	0.0	0	0	0
Subtotal	**38,414**	**2.8**	**278.7**	**7.0**	**3,433**	**344,257**	**8,674**
Indicated							
Dukat Mine	6,217	1.3	577.7	10.6	265	115,463	2,124
Vorontsovskoye Mine	4,532	1.8	2.7	1.8	261	389	263
Lunnoye Mine	1,999	2.1	476.3	9.0	133	30,613	579
Arylakh Project	767	0.7	589.5	8.7	18	14,533	215
Khakanjinskoye Mine	1,132	5.5	237.8	7.4	201	8,654	271
Yurievskoye Project	130	7.9	10.9	7.9	33	46	33
Albazino Project	4,300	5.6	0.0	5.6	769	0	769
Subtotal	**19,076**	**2.7**	**276.7**	**6.9**	**1,679**	**169,698**	**4,254**
Total Measured + Indicated							
Dukat Mine	19,634	1.3	632.2	11.4	799	399,056	7,224
Vorontsovskoye Mine	23,996	2.9	4.1	2.9	2,200	3,131	2,223
Lunnoye Mine	2,676	2.3	465.7	8.9	194	40,063	768
Arylakh Project	1,691	1.0	572.4	8.8	54	31,121	476
Khakanjinskoye Mine	4,478	5.8	280.0	8.4	841	40,315	1,211
Yurievskoye Project	714	11.1	11.7	11.2	255	269	257
Albazino Project	4,300	5.6	0.0	5.6	769	0	769
Total Measured + Indicated	**57,490**	**2.8**	**278.1**	**7.0**	**5,112**	**513,955**	**12,928**
Inferred							
Dukat Mine	16	1.0	437.5	8.1	1	229	4
Vorontsovskoye Mine	64	2.5	3.4	2.6	5	7	5
Lunnoye Mine	741	1.0	562.7	8.6	24	13,412	206
Arylakh Project	82	1.4	506.5	8.2	4	1,341	22
Khakanjinskoye Mine	77	5.0	258.7	7.1	12	642	18
Yurievskoye Project	26	13.9	14.0	14.1	12	12	12
Albazino Project	2,305	4.4	0.0	4.4	329	0	329
Subtotal	**3,312**	**3.6**	**146.9**	**5.6**	**387**	**15,642**	**596**
Total Mineral Resources							
Dukat Mine	19,650	1.3	632.0	11.4	799	399,286	7,228
Vorontsovskoye Mine	24,060	2.9	4.1	2.9	2,206	3,138	2,229
Lunnoye Mine	3,417	2.0	486.8	8.9	218	53,474	974
Arylakh Project	1,773	1.0	569.3	8.7	58	32,462	498
Khakanjinskoye Mine	4,556	5.8	279.6	8.4	853	40,957	1,229
Yurievskoye Project	740	11.2	11.8	11.3	266	281	268
Albazino Project	6,605	5.2	0.0	5.2	1,098	0	1,098
Total Mineral Resources	**60,802**	**2.8**	**270.9**	**6.9**	**5,498**	**529,598**	**13,523**

2.2.2 History

The Company was founded by the ICT Group in 1996 as the Scientific-Research and Project Institute for Polymetals and was incorporated in Saint Petersburg in 1998. Between 1996 and 1999, the Company acquired seven silver and gold deposits (Barun-Holba, Dukat, Khakanjinskoye, Kirovskoe, Lunnoye, Murtykty and Vorontsovskoye). During this phase, the Company's main objective was to obtain mining licences for deposits that, although not in production at that time, had already been sufficiently explored to warrant investment to establish commercial production. The Company designed, obtained permits for, constructed and started up commercial operations at each of the seven deposits between 2000 and 2003.

In 2000, the Company launched mining and processing operations (heap leaching of oxidised ores) at Vorontsovskoye (Stage I) and in 2001 commenced mining and milling operations at Lunnoye. In 2002, the Company determined that Murtykty and Kirovskoe did not meet its corporate objectives disposed of these assets by means of a sale to third parties. The Company launched mining and processing operations at Dukat in 2002 and at Khakanjinskoye in 2003. The Company disposed of Barun-Kholba in 2004.

In 2004, the Company was reorganised, and, as part of this reorganisation, Polymetal Management and Polymetal Engineering were established as separate subsidiaries, in order to provide streamlined management services and enhance corporate governance, accountability and transparency. In 2004, the Company also launched processing operations (tank leaching of primary ores by the carbon-in-pulp method) at Vorontsovskoye (Stage II) and in 2005 expanded the processing plant at Khakanjinskoye. ICT and its subsidiaries, including Polymetal, were sold by ICT's shareholders to Nafta Moskva in November 2005. In 2006, the Company acquired Resource Albazino (the Albazino deposit, Khabarovsk Territory). In September 2006, the Company signed a preliminary agreement to establish a strategic alliance with AngloGold Ashanti, and in December 2006 the Company formed a joint venture with Mongolrostsvetmet.

Table 2.2 presents selected historical operating statistics for the Company. In 2005, the Company processed approximately 2.5Mt of ore and produced approximately 243koz of gold and 18.9Moz of silver at a gold equivalent cash cost of US$207/oz. For the nine month period ending 30 September 2006, the Company processed approximately 2.2Mt of ore and produced approximately 186koz of gold and 13.0Moz of silver at a gold equivalent cash cost of US$289/oz.

Table 2.2 Company: salient historical operating results(1)

Statistics	Units	2003	2004	2005	2006(H1+Q3)
Production					
Tonnage	(kt)	1,654	2,141	2,525	2,186
Grade	(g/t Au)	3.1	3.7	3.6	3.3
	(g/t Ag)	332.5	316.6	314.7	247.6
Produced					
Gold	(koz Au)	131	212	243	186
Silver	(koz Ag)	11,760	17,287	18,936	12,965
Gold Equivalent	(koz Au Eq)	264	444	572	376
Expenditures					
Cash Cost	(US$m)	66.8	93.8	118.5	108.7
Capital Expenditure	(US$m)	35.3	23.6	13.7	21.3
Unit Expenditures (Cash Costs)					
Cash Cost per tonne processed	(US$/t)	40	44	47	50
co-product (Gold Equivalent)	(US$/oz Au Eq)	253	211	207	289
co-product (Silver Equivalent)	(US$/oz Ag Eq)	2.87	2.84	3.61	4.24
by-product (Gold)	(US$/oz Au)	162	30	-74	-22
by-product (Silver)	(US$/oz Ag)	1.87	0.81	0.95	-0.13

(1) Excluding Barun-Kholba, an asset which has been disposed of by the Company.

2.2.3 Strategy

The Company's corporate strategy is stated in the following six key areas:

- **Maintaining profitability while increasing production at existing operations.** Specifically through proposed expansions at: Dukat (processing capacity to 950ktpa by 2008); Vorontsovskoye (CIP Circuit processing capacity to 940ktpa by 2009); Lunnoye (processing capacity to 300ktpa in 2007; Khakanjinskoye processing capacity to 580ktpa in 2007);

- **Continuing to increase production of silver and gold whilst maintaining a sound operating cash flow profile:** In support of its increased production capacity of its processing plants over the next three years the Company plans to launch targeted exploration campaigns around existing sites in order to increase ore reserves and maintain mine life as production increases. In order to achieve its strategy of maintaining profitability and operating cashflow the Company intends to continue optimising performance at its existing mines through re-engineering, de-bottlenecking and technological innovation;

- **Acquiring new exploration licences and development projects:** The Company's recent acquisition of the Albazino gold deposit in the Khabarovsk Territory is an example of this strategy. The Company intends to continue to seek similar opportunities by focusing on acreage around its currently active ore bodies, as well as on stand-alone projects that are at an advanced stage of development and on further regional campaigns in areas of high geological prospectivity;

- **Continuing to commission new mines and develop exploration projects:** The Company aims to manage the complete cycle of its deposits' development, from the exploration phase to final production (including engineering, construction and operational activities). In the medium term, the Company currently plans to bring the recently acquired Albazino Project into operation by 2010. In addition, the Company currently plans to be able to bring three to four exploration projects into the feasibility stage of the cycle over the next few years;

- **Maximising the benefits from the strategic alliance with AngloGold Ashanti and joint venture with Mongolrostsvetmet:** The Company will seek to leverage its strategic alliance with AngloGold Ashanti. In particular, the Company will work with AngloGold Ashanti to bring the Veduga deposit into operation as quickly as possible. In addition, the Company expects to benefit from AngloGold Ashanti's position as a leading international gold producer in terms of gaining access to best practices, particularly with respect to geological expertise, processing technology and Western business techniques. The Company also seeks to leverage the benefits of its joint venture in Mongolia, such as access to Mongolrostsvetmet's materials and technical base, infrastructure and production capabilities; and

- **Focusing on development of the Company's human capital:** A key component of the Company's strategy is the retention and further development of its human capital. The Company's ability to attract, retain and train to the requisite level a skilled and growing workforce is critical to its future success and growth ambitions. The Company focuses on recruiting talented newly qualified young geologists, mining engineers and processing engineers from regional universities through a partnership with technical universities in Irkutsk, Tomsk and Magnitogorsk. In 2006, the Company offered internship positions to approximately 200 students, and expects approximately 40% of these to return as full time employees upon graduation.

2.3 Overview of the Mining Assets

The Company's Mining Assets includes four mining and processing operations, specifically: Dukat, Vorontsovskoye, Lunnoye and Khakanjinskoye: three projects, specifically Arylakh Project, Yurievskoye Project and Albazino Project; and exploration properties comprising stand-alone prospects and regional exploration campaigns.

2.3.1 Dukat

Introduction: Dukat comprises an open-pit and underground mining operation processing ore at the Dukat Plant situated at Omsukchan at a production rate of 850ktpa. The current LoMp projects increased processing at 950ktpa in 2008 and a mine life which extends for 20 years to 2026.

History: Exploration, development and production history in the area dates from 1967 when the Dukat deposits were discovered. Substantive exploration commenced in 1971 and by 1977, 84 deposits had been identified over a strike length of 1.4km to a depth of 500m. Commercial scale mining operation commenced in 1980 and continued until 1997: through a combination of open-pit and underground mining methods. During 1998, the legal rights to the deposits were acquired by a joint venture formed between Pan American Silver Corporation (30%) and various Russian companies (30%). In 2000, the Company acquired a controlling interest in Dukat through a joint venture between the Company (68% indirect interest), Pan American Silver (20% direct interest), and various other Russian companies (12% indirect interest). In 2002, the joint venture re-commenced production through a combination of underground and open-pit methods with an initial processing capacity of 750ktpa. Plant capacity was expanded to 850ktpa in 2005 with the addition of a parallel grinding circuit. In 2004 and 2005 the Company acquired the interests of the minority shareholders however a portion of the consideration owed to Pan American Silver Corporation remains unpaid at US$22.5m.

Location: Dukat is situated in the Omsukchansky administrative division of Magadan Oblast, Far Eastern Federal District, Russia some 310km northeast of the city of Magadan, the administrative centre of Magadan Oblast and a port on the Sea of Okhotsk. Located at latitude 62°34N and longitude 155°17E at an elevation of 600m above sea level, the site is accessed from a combination of paved and unpaved roads, a travelled distance of 600km from Magadan: specifically along the 639 from Magadan to Orotukan northwards and on minor roads (40km) to Omsukchan which is situated 30km to the southeast of Dukat. Magadan with a population of 100,000 has a seaport (navigable from May to December) and a major airport (Sokol Airport). Dukat is situated in the GMT+11 time zone.

Terrain: The immediate terrain comprises barren hills extending up to 1,500m above sea level with the surrounding area largely unoccupied. Regionally the area is classed as Boreal Evergreen Forests and permafrost and tundra cover most of the region. The growing season is only one-hundred days long.

Climate: The climate of Magadan is sub-arctic where winters are prolonged and very cold, with up to six months of sub-zero temperatures, so that the soil remains permanently frozen. Average temperatures on the coast of the Sea of Okhotsk range from -22°C in January to 12°C in July and average temperatures in the interior range from -38°C in January to 16°C in July.

Title: The current mining license covers an area of 11.40km^2 and is valid until December 2017. The immediate surrounding areas are covered by exploration licenses for Dukat Ore Fields (40.6km^2) and Dukat Prospective Area (2,420km^2).

Geology (See Section 3.0 for further details): The Dukat deposits comprise mineralised structures hosted within andesites, tuffs, liparites and rhyodacites of Cretaceous age. The mineralised structures vary from single massive quart veins through to zones of intense silicification and brecciation which are steeply dipping with an average width of 6m to 15m. The five largest ore zones display continuity over several hundred metres and account for 85% of the ore reserves of the deposit. The largest ore body has a maximum thickness of up to 50m, a strike length of 2km and has been investigated by drilling and underground sampling to a depth of 600m. Major ore minerals are silver sulphides, silver, native silver and native gold associated with sulphides.

Ore Reserves and Mineral Resources (See Section 5.0 for further details): As at 1 October 2006, Dukat has Ore Reserves of 5.9Moz gold equivalent contained within 18.6Mt and grading 9.8g/t Au equivalent and Mineral Resources of 7.3Moz gold equivalent contained within 19.7Mt and grading 11.4g/t Au equivalent.

Mining Operations (See Section 6.0 for further details) comprise underground, five separate open-pits and stockpile reclamation. Underground mining is planned to continue until 2026 and open-pit operations until 2011.

Processing Plants (See Section 7.0 for further details): A single processing plant, the Dukat Plant, processes underground and open-pit ore to produce a mixed sulphide concentrate which is further processed at the Lunnoye Plant to produce cementate. The cementate is then transported to the Company's wholly owned smelter situated at Omsukchan to produce doré. The Dukat Plant circuit comprises crushing, milling, flotation and gravity separation to produce a precious metals concentrate and has a rated processing capacity of 950ktpa.

Capital Projects (See Section 9.4 for further comments): The Company incurred approximately US$1.1m at Dukat in calendar year 2005 and US$6.3m for the 9 month period ending 30 September 2006. In 2007 the Company has budgeted capital expenditures of US$7.7m and the total LoMp capital requirements is assumed at UD$68.8m, US$32.7m is to be expended from 1 October 2006 through 2011 inclusive.

Operating Performance: In the 9 months to 30 September production is in line with that planned, other than for waste stripping at the open pits which is some 10% lower than planned. Further unit cash costs are higher than envisaged largely due to increased costs of consumables and the increased rate of development.

Future Considerations at Dukat relate to operational performance improvements, specifically metallurgical recoveries (gold 76.9% to 79.6% in 2007; silver 84% to 87% in 2008) and the Dukat Expansion Project ("DEP"). The DEP is currently the subject of a pre-feasibility study planned for completion in 2007 and envisages expansion from 950ktpa to 1.5Mtpa at a capital cost of US$51m.

Table 2.3 Dukat: salient historical operating results

Statistics	Units	2003	2004	2005	2006(H1+Q3)
Production					
Tonnage	(kt)	548	765	867	642
Grade	(g/t Au)	1.6	1.4	1.2	1.2
	(g/t Ag)	782.7	605.6	608.2	568.0
Produced					
Gold	(koz Au)	22	24	25	18
Silver	(koz Ag)	8,646	12,076	13,415	9,495
Gold Equivalent	(koz Au Eq)	115	243	228	154
Expenditures					
Cash Cost	(US$m)	29.5	44.4	53.0	51.4
Capital Expenditure	(US$m)	2.1	3.8	1.1	6.3
Unit Expenditures (Cash Costs)					
Cash Cost per tonne processed	(US$/t)	54	58	61	80
co-product (Gold Equivalent)	(US$/oz Au Eq)	255	183	232	333
co-product (Silver Equivalent)	(US$/oz Ag Eq)	2.75	3.31	3.52	4.78
by-product (Gold)	(US$/oz Au)	-55	-848	-1,752	-1,641
by-product (Silver)	(US$/oz Ag)	2.56	3.08	3.05	4.29

2.3.2 Vorontsovskoye

Introduction: Vorontsovskoye comprises an open-pit mining operation processing oxide ore at the Heap Leach Facility and primary ore at the CIP Facility with a combined production capacity of 1.4Mtpa. The current LoMp projects increased processing to 1.74Mtpa in 2009 and a mine life which extends for 18 years to 2024.

History: Exploration, development and production history in the area dates from 1985 when the Vorontsovskoye deposits were discovered. In 1998 the Company acquired the production license for Vorontsovskoye and in 1999 instituted a pilot scale project to process oxide ore. In 2000, commercial scale mining operation commenced by establishing a Heap Leach facility with a processing capacity of 800ktpa. Construction of the processing facilities for treating the primary ore using carbon-in-pulp ("CIP") technology was completed in November 2004. In 2005, processing operations for the primary (unoxidised) ore commenced with an operating capacity of 600ktpa.

Location: Vorontsovskoye is situated in the Serovsky District administrative divisions of Sverdlovsk Oblast, Urals Federal District, Russia some 310km due north of the city of Yekaterinburg, the administrative centre of the Sverdlovsk Oblast. Located at latitude 59°38N and longitude 60°13'E at an elevation of 170m above sea level, the site is accessed from a road travelling 450km northwards on the eastern side of the Urals Mountains from Yekaterinburg to the town of Serov, thereafter travelling east to Rudnichniy and south to the settlement of Vorontsovka. Situated on the eastern side of the Ural mountain range, Yekaterinburg is the main industrial and cultural centre of the Urals Federal District with a population of 1.3m, Russia's fifth largest city. Yekaterinburg is an important railway junction on Trans-Siberian Railway, with lines radiating to all parts of the Urals and the rest of Russia and is also served by the Koltsovo International Airport. Vorontsovskoye is situated in the GMT+5 time zone.

Terrain: Most of the oblast lies on the Eastern slopes of the Middle and North Urals and the Western Siberian Plain. Only in the southwest does the Sverdlovsk oblast stretch onto the Western slopes of the Ural mountains. The highest mountains all rise in the North Urals (Konzhakovsky Kamen at 1,569m and Denezhkin Kamen at 1,492m). The Middle Urals is mostly hilly country with no discernible peaks; the mean elevation is closer to 300m to 500m above the sea level. Principal rivers include the Tavda, the Tura, the Chusovaya, and the Ufa, the latter two being tributaries of the Kama. Regionally the area is classed as Boreal Evergreen Forests and permafrost and tundra cover most of the region.

Climate: The area enjoys continental climate patterns, with long cold winters (average temperatures reaching 15°C to 20°C below zero on the Western Siberian Plain) and short warm summers. Only in the southeast of the oblast do temperatures reach 19°C in July.

Title: The current mining license covers an area of 3.20km^2 and is valid until December 2018. Exploration properties in the region include Fevralskoye Prospect and Reftinskaya Prospect (0.59km^2), Galkinskaya Prospect (3.50km^2), Katasminskaya Prospect (28.20km^2) and Rudnichniy Prospect (7.90km^2).

Geology (See Section 3.0 for further details): The Vorontsovskoye deposits occupy fracture zones that occur in marbles located adjacent to, and intruded by, a granite/granodiorite intrusion. The mineralisation is hosted by a sequence of limestone and tuff and in cross-section the primary orebody dips to the west at approximately 40°. The upper section of the orebody is characterised by a flat lying karstic unit where the mineralisation is heavily oxidised. High grade mineralised zones within the main ore envelope are erratic in size and distribution and their delineation requires a high level of grade control drilling and sampling.

Ore Reserves and Mineral Resources (See Section 5.0 for further details): As at 1 October 2006, Vorontsovskoye has Ore Reserves of 2.0Moz gold equivalent contained within 22.0Mt and grading 2.8g/t Au equivalent and Mineral Resources of 2.2Moz gold equivalent contained within 24.1Mt and grading 2.9g/t Au equivalent.

Mining Operations (See Section 6.0 for further details) comprise two open-pits and stockpile reclamation. Open-pit mining operations are planned to continue until 2019 with stockpile reclamation continuing until 2024. Given the variation in both oxide and sulphide ore mined, stockpiles are routinely relied upon to facilitate a smooth production profile.

Processing Plants (See Section 7.0 for further details): Two separate processing facilities: a Heap Leach Facility for processing oxide ore and a CIP Facility for processing sulphide ore: process ore mined from the open-pit operations. The Heap Leach Facility and the CIP Facility have rated processing capacities of 800ktpa and 600ktpa respectively. The Heap Leach Facility comprises a standard pad onto which crushed ore is placed and gold recovery is through cyanide leaching. The CIP Facility comprises crushing, milling, leaching and Zinc precipitation to produce a cathode sediment with is smelted on site to produce gold and silver metal. The Company plans to increase operating capacity to 940ktpa during 2008.

Capital Projects (See Section 9.4 for further comments): The Company incurred approximately US$4.6m at Vorontsovskoye in calendar year 2005 and US$5.1m for the 9 month period ending 30 September 2006. In 2007 the Company has budgeted capital expenditures of US$9.3m and the total LoMp capital requirements is assumed at UD$34.1m, US$22.3m is to be expended from 1 October 2006 through 2011 inclusive.

Operating Performance: In the 9 months to 30 September production, specifically at the Heap Leach Facility is behind schedule and is a factor of lower metallurgical recoveries for both gold and silver: specifically gold at 56.2% actual (planned 79.6%) and silver at 12.2% actual (planned 34.5%). Furthermore tonnage throughput at the CIP Facility is less then planned (-10%). Consequently unit cash costs are (+50%) higher than planned.

Future Considerations at Vorontsovskoye relate to operational performance improvements, specifically metallurgical recoveries (gold 56.2% to 79.6% in 2007; silver 12.2% to 34.5% in 2008) and the planned expansion in operating capacity to 940ktpa at the CIP Facility in 2008.

Table 2.4 Vorontsovskoye: salient historical operating results

Statistics	Units	2003	2004	2005	2006$^{(H1+Q3)}$
Production					
Tonnage	(kt)	827	906	1,019	968
Grade	(g/t Au)	3.9	3.6	3.3	3.4
	(g/t Ag)	2.4	8.9	6.6	9.5
Produced					
Gold	(koz Au)	92	78	75	72
Silver	(koz Ag)	63	57	56	50
Gold Equivalent	(koz Au Eq)	93	79	76	72
Expenditures					
Cash Cost	(US$m)	11.7	16.8	23.8	27.4
Capital Expenditure	(US$m)	7.5	12.3	4.6	5.1
Unit Expenditures (Cash Costs)					
Cash Cost per tonne processed	(US$/t)	14	19	23	28
co-product (Gold Equivalent)	(US$/oz Au Eq)	127	215	315	379
co-product (Silver Equivalent)	(US$/oz Ag Eq)	1.94	3.60	5.59	4.99
by-product (Gold)	(US$/oz Au)	124	212	314	377
by-product (Silver)	(US$/oz Ag)	-334.03	-283.31	-114.11	-248.81

2.3.3 Lunnoye

Introduction: Lunnoye comprises the Lunnoye Mine and the Arylakh Project. Lunnoye Mine comprises an open-pit mining operation processing ore at the Lunnoye Plant which has a capacity of 300ktpa and an underground mine planned for production in 2008. The Arylakh Project, a satellite deposit is planned as an open-pit operation and due to commence in 2007. The current LoMp assumes continued processing at 300ktpa and a mine life which extends for 16 years to 2022. The process plant is assumed to continue operating until 2026 to facilitate processing of the Dukat concentrate.

History: Exploration, development and production history at Lunnoye Mine dates from 1987 when the Lunnoye deposits located in the southern part of the Arylakh ore basin were discovered. 13 ore zones were identified, four of which have been the focus of extensive exploration. Drilling programmes commencing in 1992 lead to the identification of economic mineralisation to a depth of 400m. In 1994 a feasibility study was completed which envisaged open-pit mining to a depth of 60m below surface. In 1999, the Company secured the exploration and production license and, in 2001, construction of the processing plant was completed and open-pit mining commenced, with a processing capacity of approximately 300ktpa. From 2003, the mine began co-processing ore from Lunnoye Mine and concentrate from Dukat. In 2006, the construction of the access adit marked the beginning of the construction of the underground mine, which the Company currently expects to reach its design capacity of 150ktpa in 2009. The Company expects that the open pit will be fully depleted by the end of 2007.

Exploration and development history at the Arylakh Project commenced in 1986 when the Arylakh deposit was discovered. Between 1987 and 1988 preliminary exploration was conducted, comprising a combination of trenching, diamond drilling and underground development. The Company obtained an exploration and production licence for Arylakh in 1999, and a feasibility study was completed in 2000. In the third quarter of 2006, the Company completed the construction of an all-year road from Lunnoye Mine to the Arylakh Project and purchased a mining fleet for this operation. Mining at the Arylakh Project began in the fourth quarter of 2006 ahead of schedule along with limited processing of ore at the Lunnoye Plant.

Location: Lunnoye is situated in the Omsukchansky administrative division of Magadan Oblast, Far Eastern Federal District, Russia some 455km northeast of the city of Magadan, the administrative centre of Magadan Oblast and a port on the Sea of Okhotsk. Located at latitude 63°06N and longitude 155°09E at an elevation of 690m above sea level, the site is accessed from a combination of paved and unpaved roads, a travelled distance of 710km from Magadan: specifically along the 639 from Magadan to Orotukan northwards and on minor roads (150km) to Omsukchan which is situated 70km to the southeast of Lunnoye. Lunnoye Mine is also situated 60km due north of Dukat. The Arylakh Project is situated 15km north of Lunnoye Mine and is accessed along 20km of unpaved roads.

Magadan with a population of 100,000 has a seaport (navigable from May to December) and a major airport (Sokol Airport). Lunnoye is situated in the GMT+11 time zone.

Terrain: The immediate terrain comprises barren hills extending up to 1,500m above sea level with the surrounding area largely unoccupied. Regionally the area is classed as Boreal Evergreen Forests and permafrost and tundra cover most of the region. The growing season is only 100 days long.

Climate: The climate of Magadan is sub-arctic where winters are prolonged and very cold, with up to six months of sub-zero temperatures, so that the soil remains permanently frozen. Average temperatures on the coast of the Sea of Okhotsk range from -22°C in January to 12°C in July and average temperatures in the interior range from -38°C in January to 16°C in July.

Title: The current mining license for Lunnoye Mine covers an area of 48.00km^2 and is valid until December 2016. The current mining license for Arlyakh Mine covers an area of 1.45km^2 and is valid until December 2016.

Geology (See Section 3.0 for further details): The Lunnoye deposits comprise a series of sub-parallel quartz veins and zones of silicification hosted by predominantly volcanic rocks. Silver occurs as a series of silver sulphides containing between 2% and 5% arsenopyrite. The main orebody (Zone 9) is 5m to 35m wide, visually distinctive and is steeply dipping with a strike length of up to 800m. At the Arylakh Project the main body of the deposit is a zone of multiple veins up to 1.4km in length and extending to a depth of 250m below surface. The immediate area is structurally complicated and the thickness of the orebody varies from less than 1m up to 15m.

Ore Reserves and Mineral Resources (See Section 5.0 for further details): As at 1 October 2006, Lunnoye has Ore Reserves of 1.0Moz gold equivalent contained within 4.6Mt and grading 7.3g/t Au equivalent and Mineral Resources of 1.5Moz gold equivalent contained within 5.2Mt and grading 8.8g/t Au equivalent.

Mining Operations (See Section 6.0 for further details) comprise open-pit and stockpile reclamation. Underground mining is planned in 2008 and open-pit operations at Arylakh Project commenced ahead of schedule in Q4 2006.

Processing Plants (See Section 7.0 for further details): A single processing plant, the Lunnoye Plant, processes open-pit ore to produce cementate. The cementate is then transported to the Company's wholly owned smelter situated at Omsukchan to produce doré. The Lunnoye Plant circuit comprises crushing, milling with the Dukat concentrate, leaching, zinc precipitation to produce a precious metals cementate and has a rated processing capacity of 300ktpa of ore and 35ktpa of concentrate.

Capital Projects (See Section 9.4 for further comments): The Company incurred approximately US$1.3m at Lunnoye in calendar year 2005 and US$3.7m for the 9 month period ending 30 September 2006. In 2007 the Company has budgeted capital expenditures of US$4.7m and the total LoMp capital requirements is assumed at UD$37.5m, US$20.6m is to be expended from 1 October 2006 through 2011 inclusive.

Operating Performance: In the 9 months to 30 September production is behind plan however unit cash costs are substantially lower, largely due to the toll treatment revenue for processing of Dukat concentrate which is commodity price dependent.

Future Considerations at Lunnoye is dependent upon the successful implementation of the underground mining project and the ramp-up of open-pit mining at the Arylakh Project.

Table 2.5 Lunnoye: salient historical operating results

Statistics	Units	2003	2004	2005	2006(H1+Q3)
Production					
Tonnage	(kt)	246	257	257	201
Grade	(g/t Au)	3.2	3.6	3.1	2.5
	(g/t Ag)	453.4	446.6	436.0	324.5
Produced					
Gold	(koz Au)	17	31	25	15
Silver	(koz Ag)	3,053	3,689	3,023	1,859
Gold Equivalent	(koz Au Eq)	59	91	77	51
Expenditures					
Cash Cost	(US$m)	14.2	11.8	12.7	3.4
Capital Expenditure	(US$m)	4.7	2.1	1.3	3.7
Unit Expenditures (Cash Costs)					
Cash Cost per tonne processed	(US$/t)	58	46	49	17
co-product (Gold Equivalent)	(US$/oz Au Eq)	239	130	165	67
co-product (Silver Equivalent)	(US$/oz Ag Eq)	3.50	2.00	2.83	1.12
by-product (Gold)	(US$/oz Au)	-24	-87	-407	-677
by-product (Silver)	(US$/oz Ag)	3.09	0.86	0.57	-2.80

2.3.4 Khakanjinskoye

Introduction: Khakanjinskoye comprises the Khakanjinskoye Mine and the Yurievskoye Project. Khakanjinskoye Mine comprises an open-pit mining operation processing ore at the Khakanjinskoye Plant which has a capacity of 580ktpa and two underground mines planned for production in 2011. The Yurievskoye Project, a satellite deposit is planned as an open-pit operation and due to commence in 2013. The current LoMp assumes processing at 580ktpa and a mine life which extends for 10 years to 2016.

History: Exploration, development and production history at Khakanjinskoye Mine dates from 1960 when the deposits were discovered. Substantive exploration was conducted from 1963 through 1971 and the Company secured the licenses in 1998. Development of the project commenced in 1999 with the construction of a road from the town of Okhotsk, which was completed during 2002. A pre-feasibility study was prepared in 2001 which assumed a production rate of approximately 500ktpa. The mine and mill complex at Khakanjinskoye were launched in 2003, and expansion of the mill capacity to 580ktpa was completed in 2006.

Exploration history at the Yurievskoye Project dates from 1975 when the deposit was discovered. Subsequent exploration conducted between 1976 and 1980 included trenching, diamond drilling and underground development. The Company obtained a licence for exploration and mining of the Yurievskoye deposit in 1998. During 2002, the Company conducted a feasibility study envisaged mining by open-pit methods to a depth of 60m.

Location: Khakanjinskoye Mine is situated in the Okhotsky administrative division of Khabarovsk Territory, Far Eastern Federal District, Russia some 85km north-northwest of the seaport of Okhotsk (population 5,500) situated at the mouth of the Okhota River on the Sea of Okhotsk. Located at latitude 60°3N and longitude 142°37E, Khakanjinskoye Mine is accessed either by road, following the Arka River, from Okhotsk or by air from Magadan situated some 460km to the east. Nearby settlements include Arka situated 23km due west and Mindukanskaya 15km due south. The Yurievskoye Project is situated some 60km south-west of Khakanjinskoye Mine at latitude 60°03N and longitude 142°37E, near the Dzhugdzur Mountains and 29km due west of the settlement of Yuryevskaya. Khakanjinskoye is situated in the GMT+10 time zone. Khabarovsk the administrative centre of Khabarovsk Territory is situated some 1,400km to the south-southwest.

Terrain: The Khabarovsk Territory includes Taiga and tundra in the north, swampy forest in the central depression, and deciduous forest in the south are the natural vegetation in the area. The immediate terrain comprises barren hills extending from 400m up to 2,000m above sea level with the surrounding area largely unoccupied. Regionally, the area is classed as Boreal Evergreen Forests and permafrost and tundra cover most of the region.

Climate: The climate of Khabarovsk is sub-arctic where winters are prolonged and very cold, with up to six months of sub-zero temperatures, so that the soil remains permanently frozen. Average temperatures on the coast of the Sea of Okhotsk range from -22°C in January to 12°C in July and average temperatures in the interior range from -38°C in January to 16°C in July.

Title: The current mining license for Khakanjinskoye Mine covers an area of 50.24km^2 and is valid until December 2014. The current mining license for Yurievskoye Mine covers an area of 50.20km^2 and is valid until December 2014.

Geology (See Section 3.0 for further details): The Khakanjinskoye deposits comprise a quartz rich zone of individual quartz veins hosted by a zone of intense silicification. The mineralised horizon varies in thickness between 5m and 90m and is separated into three structural domains. The central domain hosts the bulk of the resource tonnage with a strike length of 600m extending some 650m down dip. Orebodies dip at 25° to 30° and the gold is generally free milling and fine grained. Argenite is the primary silver mineral which generally accounts for the low recoveries experienced to date. At Yurievskoye the orebody comprises a steeply dipping vein system up to 6m wide which extend for 700m east-west along strike and extends to depths over 200m from surface.

Ore Reserves and Mineral Resources (See Section 5.0 for further details): As at 1 October 2006, Lunnoye has Ore Reserves of 1.3Moz gold equivalent contained within 5.4Mt and grading 7.7g/t Au equivalent and Mineral Resources of 1.5Moz gold equivalent contained within 5.3Mt and grading 8.8g/t Au equivalent.

Mining Operations (See Section 6.0 for further details) comprise open-pit and stockpile reclamation. Underground mining is planned in 2011 and open-pit operations at Yurievskoye Project are scheduled to commence in 2013.

Processing Plants (See Section 7.0 for further details): A single processing plant, the Khakanjinskoye Plant, processes open-pit ore to produce a zinc precipitate. The precipitate is then transported to the Krasnoyarsk refinery where it is toll processed to produce bullion. The Khakanjinskoye Plant circuit comprises crushing, milling, leaching and zinc precipitation and has a rated processing capacity of 580ktpa of ore.

Capital Projects (See Section 9.4 for further comments): The Company incurred approximately US$6.7m at Khakanjinskoye in calendar year 2005 and US$6.3m for the 9 month period ending 30 September 2006. In 2007 the Company has budgeted capital expenditures of US$2.1m and the total LoMp capital requirements is assumed at UD$24.5m, US$17.8m is to be expended from 1 October 2006 through 2011 inclusive.

Operating Performance: In the 9 months to 30 September production is in accordance with the plan as are unit cash costs.

Future Considerations at Khakanjinskoye is dependent upon increased metallurgical recoveries in 2007 (gold at 93% and silver at 51.4%) and timely development of the No. 2 open-pit in 2007.

Table 2.6 Khakanjinskoye: salient historical operating results

Statistics	Units	2003	2004	2005	2006(H1+Q3)
Production					
Tonnage	(kt)	32	213	382	375
Grade	(g/t Au)	5.8	12.8	9.9	7.3
	(g/t Ag)	218.0	431.2	388.5	272.4
Produced					
Gold	(koz Au)	0	79	118	81
Silver	(koz Ag)	0	1,465	2,442	1,562
Gold Equivalent	(koz Au Eq)	0	103	160	111
Expenditures					
Cash Cost	(US$m)	8.2	17.4	24.3	21.4
Capital Expenditure	(US$m)	21.0	5.5	6.7	6.3
Unit Expenditures (Cash Costs)					
Cash Cost per tonne processed	(US$/t)	256	82	64	57
co-product (Gold Equivalent)	(US$/oz Au Eq)	0	170	152	192
co-product (Silver Equivalent)	(US$/oz Ag Eq)	0.00	2.31	2.55	3.55
by-product (Gold)	(US$/oz Au)	0	126	68	43
by-product (Silver)	(US$/oz Ag)	0.00	-9.24	-9.38	-19.12

2.3.5 Head Office

Introduction: The Company's Head Office and holding company provides support services to the operating mines, development projects and the exploration properties and is situated in St Petersburg, North-Western Federal District, Russia.

Location: St Petersburg is a major transport hub with five major railway stations, seaports in the Gulf of Finland of the Baltic Sea and river ports to the Neva delta. It is also the terminus of the Volga-Baltic Waterway which links the Baltic with the Black Sea. The city is served by Pulkovo Airport, which carries both domestic and international flights, and the smaller Pushkin Airport and Rzhevka Airport. Located latitude 59°53'N and longitude 30°15'E, St Petersburg is situated in the GMT+3 time zone, has approximately 4.7 million inhabitants and is Russia's second-largest city and Europe's fourth largest city.

Capital Projects: Other than the associated exploration expenditures (See Section 4.0) no significant capital expenditures are forecasted in respect of the company's head offices.

Operating Performance: Operating expenditures are currently less (-20%) than planned and are planned to increase to US$9.0m per annum in 2007.

Future Considerations: As Mining Assets are depleted the Company assumes that the operating costs for Head Office will reduce, specifically to by 30% in 2017 and 50% in 2019.

Table 2.7 Head Office: salient historical operating results

Statistics	Units	2003	2004	2005	2006(H1+Q3)
Expenditures					
Cash Cost	(US$m)	3.3	3.4	4.7	5.1
Capital Expenditure	(US$m)				
Unit Expenditures (Cash Costs)(1)					
Cash Cost per tonne processed	(US$/t)	2	2	2	2
co-product (Gold Equivalent)	(US$/oz Au Eq)	13	8	8	14
co-product (Silver Equivalent)	(US$/oz Ag Eq)	0.17	0.10	0.14	0.20
by-product (Gold)	(US$/oz Au)	-340	-398	-559	-580
by-product (Silver)	(US$/oz Ag)	-4.18	-4.50	-5.06	-8.12

(1) Unit expenditures are derived by reference to the total tonnes of ore processed and the unit metal sales.

2.3.6 Exploration Properties

The Company's exploration and development activities consist of exploration around its existing deposits, stand alone development projects and regional exploration campaigns. Details regarding the status of licenses are included in Section 2.5 of this MER. The stand-alone exploration projects include one Project and 9 Prospects with a combined area of 323km^2 represented by six specific licences:

- ***Albazino Project*** is situated in the Poliny Osipenko administrative division of the Khabarovsk Territory, Far Eastern Federal District, Russia some 530km northwest of Khabarovsk, the administrative centre of the Khabarovsk Territory. Located at latitude 52°51'N and longitude 137°56'E in GMT+10 time zone, the site is accessed by the river Im to the seasonal port of Oglongi situated 80km to the west.

  The immediate terrain is covered with taiga forest and relief is classified as moderate (15°) to steep (35°) slopes where altitudes range from 350m to 770m above sea level. The area has a relatively high drainage density, with the main water courses being the Amgum and Somnya rivers.

  The Albazino Project is the subject of a scoping study targeting the development of an open-pit operation processing at a rate of 900ktpa. The metallurgical process considered is conventional flotation followed by pressurised oxidation and in-house development of the complete flowsheet is currently scheduled for the third quarter of 2007. This will however be dependent upon significantly increasing the current Mineral Resource base by 2009 in addition to furthering technical studies at pre-feasibility and feasibility study level;

- ***Aprelkovsko-Peshkovsky Unit ("APU") Prospect*** is situated in the Balei administrative division of the Chita Region, Siberian Federal District, Russia some 200km east of Chita the administrative centre of the Chita Region. Located at latitude 51°48'N and longitude 116°20'E in GMT +9 time zone the site is accessed along unpaved all-year roads running from the main road, parallel to the Ingoda river between Chita and Nerchinsk. With a population of 305,000 Chita is served by Chita Kadala Airport, the Chita Northwest air base and the Trans-Siberian Railway.

  The APU Prospect comprises three targets, namely the: Talovy Prospect; Rudni Prospect and the Aprelovsko-Peshkovsky Prospect;

- ***Anenskoye Prospect*** is situated in Sukhoi Buzim administrative division of Krasnoyarsk Territory, Siberian federal District, Russia some 100km northwest of Krasnoyarsk, the administrative centre of Krasnoyarsk Territory. Located at latitude 56°45'N and longitude 93°58'E in GMT +7 time zone the site is situated in the westernmost section of the Sayan mountain range and is accessed along paved roads from either Minusinsk situated due south on the M54 from Krasnoyarsk, or from Tertez situated due west on the M53 due west of Krasnoyarsk.

  With a population of 909,000 Krasnoyarsk lies on the Yenisei River and is an important junction on the Trans-Siberian Railway. The city is also served by Krasnoyarsk Yemelyanovo Airport;

- ***Fevralskoye Prospect*** is situated in the Sukholozhsky administrative division of Sverdlovsk Region, Urals Federal District, Russia, some 90km east-northeast of Yekaterinburg, the administrative centre of the Sverdlovsk Region. Located at latitude 57°01'N and 62°01'E in GMT +5 time zone the site is accessed some 20km northwards from the town of Sukhoy Log;

- ***Reftinskaya Prospect*** is situated in the Sukholozhsky administrative division of Sverdlovsk Region, Urals Federal District, Russia, some 80km east-northeast of Yekaterinburg, the administrative centre of the Sverdlovsk Region. Located at latitude 57°07'N and 61°51'E in GMT +5 time zone the site is accessed some 20km northwards from the town of Sukhoy Log;

- ***Galkinskaya Prospect*** is situated in the Serovsky District administrative divisions of Sverdlovsk Region, Urals Federal District, Russia some 310km northwest of the city of Yekaterinburg, the administrative centre of the Sverdlovsk Oblast. Located at latitude 59°38'N and longitude 59°50'E in GMT+5 time zone, the site is accessed from the town of Karpinsk situated some 20km south-southeast of the site and 40km north-northwest of Vorontsovskoye Mine; and

- ***Khakarinskaya Prospect*** is situated in the Okhotsk administrative division of Khabarovsk Territory, Far Eastern Federal District, Russia some 1,250km due north of Khabarovsk, the administrative centre of the Khabarovsk Territory. Located at latitude 59°23'N and longitude 140°32'E in GMT+10 time zone, the site is remote and is also situated 80km to the south west of the Yurievskoye Project.

The regional exploration campaigns include five Prospects with a combined area of 2,632km^2 represented by five specific licences:

- ***Dukat Ore Field License*** is situated in the immediate are of the Dukat Mine situated in the Omsukchansky administrative division of Magadan Oblast, Far Eastern Federal District, Russia some 410km northeast of the city of Magadan, the administrative centre of Magadan Oblast and a port on the Sea of Okhotsk;
- ***Dukat Prospective Area*** is situated in the immediate are of the Dukat Mine situated in the Omsukchansky administrative division of Magadan Oblast, Far Eastern Federal District, Russia some 470km northeast of the city of Magadan, the administrative centre of Magadan Oblast and a port on the Sea of Okhotsk;
- ***Arkinskaya Prospect*** is situated in the Okhotsk administrative division of Khabarovsk Territory, Far Eastern Federal District, Russia some 1,400km north-northwest of Khabarovsk, the administrative centre of the Khabarovsk Territory. Located at latitude 60°13'N and longitude 141°31'E in GMT+10 time zone, the site is remote and is also situated 10km to the south of the Khakanjinskoye Mine;
- ***Katasminskaya Prospect*** is situated in the Serovsky District administrative divisions of Sverdlovsk Oblast, Urals Federal District, Russia some 300km due north of the city of Yekaterinburg, the administrative centre of the Sverdlovsk Oblast. Located at latitude 59°31'N and longitude 60°10'E in GMT+5 time zone the site is also located some 15km south-southwest of Vorontsovskoye Mine; and
- ***Rudnichniy Prospect:*** is situated is situated in the Serovsky District administrative divisions of Sverdlovsk Oblast, Urals Federal District, Russia some 320km due north of the city of Yekaterinburg, the administrative centre of the Sverdlovsk Oblast. Located at latitude 59°42'N and longitude 60°15'E in GMT+5 time zone, the site is accessed from the town of Rudnichniy and 7km north-east of Vorontsovskoye Mine.

In addition the Company has entered into agreements and joint ventures specifically:

- ***Strategic alliance with AngloGold Ashanti:*** Formed on a 50/50 basis this proposes that the partners will pursue gold mining opportunities through exploration, development, and, potentially, selected acquisitions of mining properties in Siberia and the Russian Far East, excluding regions where the Company has established operations. The APU Prospect and the Anenskoye Prospect are subject to the terms of this strategic alliance (see Section 4.9.1 for further details) as is the contribution of US$12m in cash. AngloGold Ashanti will contribute the advanced Veduga Prospect as well as the Bogunay Prospect.

  The Veduga Prospect is situated in the North Yensei administrative division of Krasnoyarsk Territory, Siberian federal District, Russia some 500km due north of Krasnoyarsk, the administrative centre of Krasnoyarsk Territory. Located at latitude 59°30'N and longitude 93°30'E in GMT +7 time zone, the site is accessed by a 350km paved road to the town of Yeniseik, located on the west bank of the Yenisei River. The Yenisei River, a major navigable waterway flowing into the Arctic Ocean, lies some 120km west of the project site. The Veduga Prospect comprises two licences, the Veduga mining licence (1.7km^2) and an exploration licence (540km^2) surrounding the mining licence. The mining licence for geological exploration and mineral extraction is valid until 1 January 2022 and is renewable. The exploration licence is valid until 1 October 2007. Veduga is also situated 310km north-northwest of Anenskoye.

  The Bogunay Prospect is located in the Rybinsk administrative division of Krasnoyarsk Territory, Siberian federal District, Russia some 150km east of Krasnoyarsk, the administrative centre of Krasnoyarsk Territory. Located at latitude 56°12'N and longitude 94°33'E in GMT +7 time zone the site is situated at the southern end of the Yenisei Ridge. The licence is comprised of three areas totalling 47.5km^2. Bogunay is also situated 70km south of Anenskoye; and
- ***Mongolrostsvetmet Joint Venture ("MJV"):*** Formed on a 50/50 basis the MJV aims to pursue the development of the Asgat polymetallic silver deposit in Mongolia. The Asgat Prospect is situated in the administrative division of Baruan-Urt, Suhbaatar Province of Mongolia, some 540km southeast of the capital city of Ulaanbaatar. Located in the Gobi Dessert at latitude 46°22'N and longitude 113°36'E, the site is accessed 40km south from Baruan-Urt, a town on the secondary road from Ondorhaan to Cojbalsan.

Historical exploration expenditures exclusive of acquisition costs are reported as US$1.5m, US$2.5m, US$2.3m and US$9.7m for 2003, 2004, 2005 and 2006$^{(H1+Q3)}$ respectively. Total planned exploration related expenditures (excluding the Joint Venture with Mongolrostsvetment and the proposed Strategic Alliance with AngloGold Ashanti Limited—See Section 4.0) amount to US$26.4m for 2007. This is planned to continue at similar levels until 2009, however future expenditures in 2008 onwards will be dependent on the success of the 2007 programme.

2.4 Licenses—current status

The licensing regime in Russia for the exploration and production of gold and silver is governed primarily by the Subsoil Law and regulations promulgated there under. All of the Company's licences are issued for a period of up to 25 years, and it will have to terminate all works on the licensed territory on the licence expiry date unless an extension is granted. Table 2.8 gives a summary of the licenses currently in force at the Mining Assets.

Rights granted by subsoil licences may be subject to limitations, suspensions or termination under certain circumstances. The Company's subsoil rights may be terminated if, among other things, the Company fails to comply with the licence requirements, start production by the required date, meet annual production requirements, make timely payments of levies and taxes, provide required information or fulfil any capital expenditure or production obligations set forth in the Company's licence agreements.

If the Company fails to fulfil the specific terms of any of its licences or if the Company operates in the licence areas in a manner that is considered to violate Russian law, government regulators may impose fines or suspend, terminate or fail to renew its licences. This may lead to operation or production interruptions, and the Company may not be able to recover the value of fixed assets, including processing plants and underground equipment in which the Company invested time and money.

In addition, should any of the licences be terminated prior to their expiration, the Company will have to bear conservation/rehabilitation costs of the respective extraction infrastructure and territory.

The Company's exploration, mining and processing activities are dependent upon obtaining and maintaining appropriate licences, permits and other regulatory consents. There can be no assurance that when granted they will be renewed or, if so, on what terms. The Company may not be able to convert any of its exploration licences into a production licence, given that the procedure concerning such conversion is not automatic and is subject to opinions and pronouncements of various governmental authorities. The Company may be required to make payments (calculated on the basis of all governmental exploration expenditures related to the area subject to the licence), which may exceed the market value of the licence.

Details regarding the specific terms and conditions of the exploration and production licenses are included in the main body of the prospectus as are specific work commitments in respect of the properties categorised as stand alone exploration projects and the regional exploration campaigns.

In addition, the Company, via its subsidiaries, holds licenses for groundwater abstraction, drilling, use of explosives materials, production of explosives materials, surveying works, use of hazardous waste, exploitation of explosive objects, storage of explosive materials for industrial use, development and extraction of sand and gravel, exploitation of chemically hazardous objects. Details regarding these and other such licenses are also included in the main body of the prospectus.

SRK has been informed that the necessary payments required for maintaining the licences and other related statutory payments are included in the operating budgets for the mining assets and head office. Details regarding the specific payments are also included in the main body of the Prospectus.

SRK has assessed certain of the technical specifications of the exploration and production licences and note the following:

- At Dukat metallurgical processing is planned to continue to 2026 at which point the production licences (expiry December 2017 and the groundwater abstraction licences (December 2017 and January 2022) will have expired;
- At Vorontsovskoye metallurgical processing is planned to continue to 2024 at which point the production license (December 2018) will have expired;
- At Lunnoye metallurgical processing is planned to continue to 2026 (note that processing of own ore ceases in 2022) at which point the production license (December 2016) has expired. Production at Arylakh Project ceases in 2015 and is not affected by this expiry;

- At Khakanjinskoye, processing is planned to continue to 2016 at which point the production license (December 2014) has expired. Production at Yurievskoye Project is similarly affected, furthermore SRK notes that production is planned to commence at Yurievskoye Project in H2 2013 which and that a condition of the Yurievskoye Exploration and Production license is that production must commence not later than 2009; and
- At Anenskoye, the Exploration licence has expired. SRK has been informed that a new application for conversion of the expired exploration licence to a combined exploration and production licence has been submitted which also seeks to extend the area to 42.0km^2.

SRK has been informed by the Company that it has first right of refusal to extensions to all relevant licenses provided that they continue to operate in accordance with the current terms and conditions.

Table 2.8 Mining Assets: Current status of licenses

Exploration Property	Prospects	Area (km^2)	Location	Licence (No)	Expiry (date)	Remaining Term (years)	Licence Type	Subsidiary
Mines + Projects								
Dukat		11.40	Magadan Region	1	31/12/2017	11.3	Production	Magadan Silver
Vorontsovskoye .		3.20	Sverdlovsk Region	1	31/12/2018	12.3	Exploration & Production	Northern Urals Gold
Lunnoye		48.00	Magadan Region	1	31/12/2016	10.3	Exploration & Production	Silver Territories
Arylakh		1.45	Magadan Region	1	31/12/2016	10.3	Exploration & Production	Silver Territories
Khakanjinskoye		50.24	Khabarovsk Territory	1	31/12/2014	8.3	Exploration & Production	Okhotsk
Yurievskoye . .		50.20	Khabarovsk Territory	1	31/12/2014	8.3	Exploration & Production	Okhotsk
Subtotal		**164.49**		**6**				
Stand-Alone Exploration Projects								
Albazino	Albazino	82.00	Khabarovsk Territory	1	31/01/2015	8.3	Exploration & Production	Resource Albazino
APU	Talovy Prospect	161.50	Chita Region	1	30/09/2008	2.0	Exploration	Imitzoloto
	Rudni Prospect		Chita Region		30/09/2008	2.0	Exploration	Imitzoloto
	Aprelkovsko-Peshkovsky Prospect		Chita Region		30/09/2008	2.0	Exploration	Imitzoloto
Anenskoye . . .	Anenskoye	11.80	Krasnoyarsk Territory	1	31/12/2006	0.3	Exploration	Yenisey
Fevralskoye . . .	Fevralskoye Prospect	0.59	Sverdlovsk Region	1	30/09/2018	12.0	Exploration & Production	Aurum
	Reftinskaya Prospect		Sverdlovsk Region		30/09/2018	12.0	Exploration & Production	Aurum
Galkinskaya . .	Galkinskaya Prospect	3.50	Sverdlovsk Region	1	31/12/2010	4.3	Exploration	Northern Urals Gold
Khakarinskaya .	Khakarinskaya Prospect	64.00	Khabarovsk Territory	1	31/12/2025	19.3	Exploration & Production	Georazvedka
Subtotal		**323.39**		**6**				
Regional Exploration Campaigns								
Omsukchan . . .	Dukat Ore Field License	40.60	Magadan Region	1	30/11/2031	25.2	Exploration & Production	Magadan Silver
	Dukat Prospective Area	2,420.00	Magadan Region	1	18/07/2011	4.8	Exploration	Magadan Silver
Okhotsk	Arkinskaya Prospect	135.00	Khabarovsk Territory	1	31/07/2011	4.8	Exploration	Georazvedka
Sverdlovsk . . .	Katasminskaya Prospect	28.20	Sverdlovsk Region	1	31/03/2031	24.5	Exploration & Production	Northern Urals Gold
	Rudnichniy Prospect	7.90	Sverdlovsk Region	1	31/08/2011	4.9	Exploration	Northern Urals Gold
Subtotal		**2,631.70**		**5**				
Total		**3,119.58**		**17**				

2.5 Country Descriptions

2.5.1 Russian Federation

Russia, formerly the dominant republic of the Union of Soviet Socialist Republics ("USSR"), is now an independent country and an influential member of the Commonwealth of Independent States ("CIS"), since the USSR's dissolution in December 1991. Russia's status is marked by membership of the Group of Eight and membership of the United Nations Security Council and is likely to seek membership of the World Trade Organisation ("WTO") in 2007.

By World Bank (the "World Bank") measures, Russia is grouped in Europe and Central Asia whose income group category is Upper Middle Income: where Gross National Income ("GNI") ranges from US$3,466 to US$10,725.

Russia is part of the BRIC group comprising Brazil, Russia, India and China. This grouping reflects those rapidly developing countries which, by 2050, are forecast to eclipse most of the current richest countries in the world.

Table 2.9 gives the relative performance of Russia relative to other benchmark countries and Table 2.10 gives a five year history of key economic and demographic statistics.

Geographically Russia extends over some 17.1 million km^2 of which 17.0 million km^2 is represented by land mass extending over much of the north of the super continent of Eurasia. Approximately 1.8 times the size of the United States, Russia's land boundaries extend some 20,017km and its coastline some 37,653km. Countries bordering Russia are Azerbaijan, Belarus, China, Estonia, Finland, Georgia, Kazakhstan, North Korea, Latvia, Lithuania, Mongolia, Norway, Poland and the Ukraine.

Russia's terrain comprises broad plains, both in the European part and the part of Asian territory that is largely known as Siberia. These plains are predominantly steppe to the south and heavily forested to the north, with tundra along the northern coast. The permafrost (areas of Siberia and the Far East) occupies more than half of the territory of Russia. Mountain ranges are found along the southern borders, such as the Caucasus (containing Mount Elbrus, Russia's and Europe's highest point at 5,642m) and the Altai, and in the eastern parts, such as the Verkhoyansk Range or the volcanoes on Kamchatka. The more central Ural Mountains, a north-south range that form the primary divide between Europe and Asia, are also notable. The lowest point of elevation is in the Caspian Sea at -28m.

Russia has an extensive coastline of over 37,000km along the Arctic and Pacific Oceans, as well as more or less inland seas such as the Baltic, Black and Caspian seas. Some smaller bodies of water are part of the open oceans; the Barents Sea, White Sea, Kara Sea, Laptev Sea and East Siberian Sea are part of the Arctic, whereas the Bering Sea, Sea of Okhotsk and the Sea of Japan belong to the Pacific Ocean.

The climate ranges form steppes in the south through humid continental in much of European Russia; sub-arctic in Siberia to tundra climate in the polar north; winters vary from cool along Black Sea coast to frigid in Siberia; summers vary from warm in the steppes to cool along the Arctic coast.

The current land use is distributed as follows: arable land (7.17%); permanent crops (0.11%); and other (92.72%) with irrigated land (2003) being some 46,000 km^2.

The **Political and Administrative** structure in Russia is a federal state with a republican form of government which is supported by a new constitution adopted after a national vote on 12 December 1993. This political structure comprises a two chamber legislature: the lower house, the State Duma, has 450 deputies; and the upper house, the Federation Council, has 176 deputies, two from each of Russia's 88 administrative federal subjects. The president is elected for a four-year term who appoints the prime minister who in turn appoints the government.

Russia, extending over 11 zones is divided into 7 large federal districts (four in Europe, three in Asia) which coincide exactly with the Interior Ministry forces' military regions, and coincide closely with the Defence Ministry regions. The federal districts were created in May 2000 by Vladimir Putin as part of a wider program designed to reassert federal authority. They are not constituent units of Russia and each federal district has a presidential envoy, whose official title is Plenipotentiary Representative. The official task of the Plenipotentiary Representative is simply to oversee the work of federal agencies in the regions.

Administratively, Russia at the most basic level is subdivided for administrative purposes into 88 federal subjects: of which 21 are republics; 48 are classified as Oblasts (provinces); 7 are classified as krais (territories); 9 are classified as autonomous okrugs (autonomous districts); one autonomous oblast; and two federal cites (Moscow and Saint Petersburg). The 21 republics enjoy a high degree of autonomy on most issues and largely correspond to some of Russia's numerous ethnic minorities.

The legal system is based on a civil law system and incorporates a judicial review of legislative acts. The various judicial branches comprise: constitutional court, supreme court; supreme arbitration court, where judges for all courts are appointed for life by the Federation Council on the recommendation of the president.

Russia has 13 cities with over a million inhabitants (from largest to smallest): Moscow, Saint Petersburg, Novosibirsk, Yekaterinburg, Nizhny Novgorod, Samara, Omsk, Kazan, Chelyabinsk, Rostov-on-Don, Ufa, Volgograd and Perm. The capital city is Moscow located at geographic co-ordinates 55° 45'N and 37° 35E with time difference of GMT+3 hours.

Russian is the official language, however many minority languages reflect the diverse ethnic groups: Russian 79.8%, Tartar (3.8%), Ukrainian (2%), Bashkir (1.2%), Chuvash (1.1%) and others (12.1%). Practicing religions include Russian Orthodox (15% to 20%), Muslim (10%-15%) and other Christian (25%).

The **Economic Structure** of the Russia is dominated by large industrial enterprises, with small and medium-sized enterprises ("SMEs"), which have been an important source of growth in other transition economies, remaining underdeveloped. SMEs account for 10% to 15% of Russian GDP, compared with typically 50% or more in developed market economies and the more advanced transition countries.

The processing industry is concentrated in Moscow, the capital, St Petersburg, Yekaterinburg and Nizhny Novgorod. The Soviet regime created industrial centres such as Tomsk and Novosibirsk, but Siberia and the Russian Far Eastern regions remain largely unindustrialised, having traditionally served as a raw materials and energy base.

Russia exports mostly raw materials, particularly oil and gas. Its main imports are machinery and equipment, consumer goods, medicines, meat, sugar and semi-finished metal products. Equipment and machinery account for about 40% of imports; agricultural and food products account for about 20%. Other important categories are chemicals and pharmaceuticals.

The EU is Russia's largest trading partner. Central and eastern Europe and East Asia are important regions as well, particularly as markets for Russian exports. So far few foreign companies have invested in Russia with a view to making it an export base. Foreign direct investment ("FDI") as a whole is low, and companies that have invested are almost invariably focused on the Russian domestic market. Exporting to other countries of the CIS has played a secondary role in some investments.

The labour force by occupation comprises (2004 estimate): agriculture (10.3%); industry (21.4%) and services (68.3%) with the unemployment rate currently at 7.6% (2005 estimate).

Table 2.9 Russia: comparison with BRIC countries and the United States

Statistics	Units	Russia	Brazil	India	China	United States
GDP—nominal	(US$bn)	763.7	794.1	785.5	2,228.9	12,455.1
GDP—growth annual	(%)	6.4%	2.3%	8.5%	9.9%	3.5%
GDP per capita, PPP (current)	(US$/capita)	5,335	4,260	718	1,709	42,007
Inflation—CPI	(%)	7.4%	5.72%	5.57%	1.60%	3.4%

Table 2.10 Russia: Economic and demographic statistics

Statistics	Units	2000	2001	2002	2003	2004	2005
Economy							
GDP—nominal	(US$bn)	259.7	306.6	345.5	431.5	590.4	763.7
GDP—growth annual	(%)	10.0%	5.1%	4.7%	7.3%	7.1%	6.4%
GDP per capita, PPP (current)	(US$/capita)	1,775	2,101	2,378	2,984	4,104	5,335
Fiscal Balance	(% GDP)	2.3%	2.9%	1.6%	2.5%	5.0%	7.4%
Current Account Balance	(US$bn)	46.8	33.9	29.1	35.4	58.6	84.2
Trade Balance	(US$bn)	52.0	48.1	46.3	59.9	85.8	118.3
Foreign Direct Investment	(US$bn)	2.7	2.7	3.5	8.0	12.5	n/a
External Debt	(US$bn)	160.0	152.5	147.4	175.5	197.3	n/a
Lending Rate	(%)	24.4%	17.9%	15.7%	13.0%	11.4%	10.7%
Exchange Rate	(US$:RUB)	28.53	30.47	31.93	29.24	27.71	28.74
Inflation							
CPI	(%)	20.17%	18.75%	15.02%	11.98%	11.72%	10.90%
Labour	(%)	51.9%	43.1%	27.2%	26.1%	10.6%	25.0%
Population and Demographics							
Population	(millions)	146.3	145.9	145.3	144.6	143.8	143.2
Population growth—annual	(%)	0.00%	-0.24%	-0.45%	-0.48%	-0.52%	-0.49%

3 GEOLOGY

3.1 Introduction

This section describes the geology of the Mining Assets. The nature of the orebodies being or planned to be mined and the variability of the grades is also discussed. Discussion in respect of the pre-resource stage Exploration Properties is included in Section 4.0 of this MER.

3.2 Geology

3.2.1 Dukat

The Dukat ore field is located within the Okhotsk-Chukot orogenic belt and is hosted by a sequence of ignimbritic rhyodacite volcanics. Three types of silver bearing veins have been identified of varying ages and with different mineral assemblages. The earliest veining is associated with a gold electrum style mineralisation in quartz veins. The next phase is characterised by quartz sulphide veins with a base metal assemblage including stannite and galena. The youngest veins are quartz rhodonite veins with native silver and a higher temperature association including garnets. Precious metal mineralisation is postulated to be related to intrusion of a granite with an age of 88 million years and a base metal mineralisation to the intrusion of a leucogranite with an age of around 80 million years.

The ore field covers an area of some 40km^2. The primary orebodies strike north-south but additional structures with a north-northwest trend crosscut the main structures. The orebodies generally dip steeply or vertically but in places they shallow and appear to form raft like structures which link between steeper structures. There is much evidence for movement around the ore bearing structures and the major orebodies occupy clearly defined fault zones either trending northeast or northwest with a roughly 60° degree separation.

The mineralised structures vary from single massive quartz veins through to zones of intense silicification and hydrothermal brecciation within which no individual quartz veins can be delineated. Orebody 1 is the largest in the deposit, has a maximum thickness of up to 50m, a strike length of some 2km and has been investigated to a depth of 600m through underground development and diamond drilling. In total, 84 separate lodes have been identified in the area.

The host rocks are of Cretaceous age and consist of andesites, tuffs, liparites (rhyolites) and rhyodacites.

The ores contain rhodonite, quartz and adularia in variable amounts together with base-metal sulphides including sphalerite, galena, chalcopyrite, pyrite, arsenopyrite and marcasite together with silver and antimony sulphosalts. Native silver occurs as disseminations in quartz or opal or as inclusions in the sulphides and secondary lead and zinc minerals or as thin veinlets. Gold occurs as inclusions (20μm to 200μm) in quartz and sulphides. Manganese and iron oxides, and lead, zinc and copper sulphates and oxides occur within the oxidized zones. The host rocks consist of quartz, opal, calcite, rhodochrosite, feldspar, sericite, hydromica, chlorite and kaolinite.

3.2.2 Vorontsovskoye

The Vorontsovskoye deposit occupies a fracture zone that occurs in marbles located adjacent to, and intruded by, a granite/granodiorite intrusion to the east. In cross-section the primary orebody dips to the west at approximately 40°. The mineralisation is hosted by a sequence of limestone and tuff and occupies a zone of metasomatism associated with a reverse fault and nearby granite/graniodiorite intrusions. The orebody generally lies in the footwall of the fault and is otherwise indistinguishable from the host rocks. The upper 40m of the orebody is characterised by a flat lying karstic unit where the mineralisation is heavily oxidised. The orebody is cut off at approximately 240m depth by faulting, while the reverse fault in the hangingwall effectively marks the limit of mineralisation to the west. The mineralised structure, however, can be traced to the north of the current operation where a series of magnetite sheared bodies occur although no significant gold mineralisation has been identified.

The original land surface was at an elevation of 180m and oxide ores extend down to approximately 155m elevation. The base of this oxidized mineralisation is highly irregular due to the variable depth of karstic weathering.

The high angle reverse fault that limits the mineralisation in the west also truncates the system of low angle thrusts that control the location of the primary mineralisation. Although the orebody is largely confined to the limestones beneath these faults the mineralisation does extend upwards into the overlying tuffs.

Brecciated limestones along the contact with the tuffs contain a matrix of tuffaceous material that has a significant enrichment in gold.

High-grade mineralised zones within the main ore envelope are erratic in shape and distribution and their delineation requires a high level of grade control drilling and sampling.

The primary ore within the tuffs consists largely of pyrite and minor arsenopyrite but also contains traces of chalcopyrite, pyrrhotite, boulangerite, sphalerite, antimonite, tetrahedrite-tennantite, galena, magnetite, haematite and ilmenite. The gold occurs variously intergrown with host rock minerals (43% to 54%), coated with iron oxides (17% to 21%), sulphide locked (17% to 21%) and attached to silicates (5% to 6%).

The carbonate hosted ore contains free gold and pyrite but also has traces of arsenopyrite, chalcopyrite, sphalerite, boulangerite, antimonite, realgar, magnetite and goethite.

3.2.3 Lunnoye

The Lunnoye deposit consists of a series of sub-parallel quartz veins and zones of silicification hosted by predominantly volcanic rocks overlain by a sedimentary sequence of sandstones and conglomerates. Faulting has led to development of a fault bounded block and it is on the northern flank of this block that the Lunnoye deposit occurs, hosted by a fault related fracture system.

The ore hosting veins generally strike to the north or northeast and are characterised by the presence of quartz carbonate or quartz rhodonite. Of the 12 structures identified, only four are currently considered as potential ore zones with one, Zone IX, containing some 80% of the total resource identified to date. Mineralogically, the silver occurs as a series of silver sulphides containing between 2% to 5% arsenopyrite.

The host rocks are tuffs and rhyolites which are cut by a series of fractures now represented by dark clay rich zone. The main No 1 orebody is 5m to 35m wide, averages 3.5g/t-Au and up to 570g/t-Ag, lies on the immediate footwall of this fault zone and strikes northeast-southwest and dips steeply (80° to 85°) to the southeast. The ore zone is visually distinctive and characterized by banded quartz-carbonate material up to 35m wide with a strike length of 800m. Rapid pinch-outs occur along strike. Other orebodies of economic significance are small and will likely contribute only 10% of the output of the operation.

SRK is confident that the continuity of the orebody as modelled is good, even taking into account the rapid pinch-outs. A thickening, although more braided appearance of the orebody with depth, is offset by a decline in grade.

The main silver minerals in decreasing order of abundance are argentite, freibergite (an argentiferous tetrahedrite) and proustite. Sulphides constitute 2% to 3% of the rock and are dominantly pyrite and galena with traces of arsenopyrite and chalcopyrite. Gold occurs as free grains or in solid solution with silver (electrum). Secondary minerals include hydroxides of iron and manganese.

Host rock minerals consist of quartz, chalcedony, tuff, adularia, plagioclase feldspar, kaolin, hydromica, epidote and titanomagnetite.

The Arylakh orebody is dominated by a northeast trending steeply dipping fault structure. On the hanging-wall of the main structure, a number of thinner vein-like structures bifurcate from the main structure and strike north-northeast. The main body of the deposit can be described as a zone of multiple quartz veins up to 1.4km in length and extending to a depth of at least 250m below surface where it remains open.

The orebody is located within a tectonic block which has been uplifted and which forms part of a lower Cretaceous volcano-sedimentary sequence. The inlier is subdivided by a series of northeast fractures and has undergone intense deformation. The mineralisation is associated with one of the northeast fractures but appears to be further controlled by a sequence of andesitic volcanics. The orebody occurs as a series of veins and veinlets associated with sulphidic quartz and quartz limonite rich bodies.

The structure is complicated and the thickness of the orebody varies from less than 1m up to 15m. There is no relationship between thickness and grade. There are two main types of quartz vein present characterised by either the presence of sulphides or goethite. The primary ore can contain up to 7% sphalerite and galena with the highest concentrations in Zones 1 and 7.

In Zone 1, where the orebody is thickest, there are areas of pure quartz with minimal sulphides and in these areas the grade is low. Pyrite and arsenopyrite are minor components of the mineralisation. In places, a major sill cuts the orebody at depth, but there is insufficient information to say whether the orebody continues beyond this.

3.2.4 Khakanjinskoye

The Khakanjinskoye orebody is hosted within a sequence of volcanics and sub-volcanic rhyolites, metasediments and breccias. The ore bearing zone itself consists of a quartz rich zone of individual quartz veins hosted by a zone of intense silicification. The mineralised horizon varies in thickness between 5m and 90m and is heavily brecciated in places. The three domains are separated by a series of fractures and dykes which displace the domains relative to each other. The central domain contains the bulk of the resource tonnage has a strike length of 600m and a proven down dip extension of some 650m. The northern domain has a strike length of 260m and a down dip extension of 100m and the south domain has a strike length of only 150m and extends for approximately 60m in the down dip direction.

Open-pit No 1 contains five ore blocks each separated by northeast striking normal faults which have an oblique slip. Post ore dykes invade some of these fault zones. The host rocks are pink-buff leached liparitic subvolcanic lavas that cut through late Cretaceous andesites and andesitic dacites, and associated metasediments. Footwall formations are green feldspar rich extrusives. The orebodies are wedge shaped with their maximum thickness up-dip towards the outcrop. Dips are typically between 25° and 30° and dip lengths are approximately 250m. The orebodies are the product of silica-manganese metasomatism. Near surface oxidation has resulted in the development of clay rich zones. Though the gold and silver are associated with manganese oxides, rhodonite may also be present. Ore boundaries are grade defined and sharp and are thus modelled using a "hard" envelope so that external low grades are not allowed to dilute marginal ore. Examination of grade profiles shows that beyond the 2g/t Au equivalent assay boundary the grades drop off very rapidly to 0.5g/t Au and then levels off at 0.1g/t Au.

Argentite is the main silver mineral thus accounting for the poor recovery of silver (48%) as this mineral requires long residence times in the cyanide leach tanks. Up to 3% sulphides accompany the manganese oxide and include pyrite and copper and bismuth sulphides.

The deposit has a low sulphide content and the gold grade is unevenly distributed but decreases with depth. The gold is free milling and relatively fine grained with a maximum recorded size of 0.4mm. The silver is predominantly contained in argentite and various sulphosalts. The primary sulphides present are pyrite, chalcopyrite, galena and sphalerite. Manganese oxides occur in the upper portions of the orebody and are associated with increased silver grades.

The Yurievskoye orebody comprises a steeply dipping vein system up to 6m wide which extend for some 700m east-west along strike. The host rocks are Cretaceous volcanics sequences, predominantly andesites and porphyritic tuffs. The sequences have undergone a period of intense hydrothermal alteration with associated development of quartz-carbonate and adularian quartz veins. The primary vein system dips north at between 70° to 80° and varies in thickness from 0.5m to 15m over a strike length of 700m.

The vein zone extends to over 200m below surface but the grade reduces with depth. The eastern boundary of the orebody is defined by a major fault and no exploration east of this fault has been carried out to determine any extension to the mineralisation. In all, a total of five separate domains have been identified within or adjacent to the main mineralised structure.

The gold is free milling and relatively fine grained (<0.8mm) and most commonly associated with the quartz-carbonate vein systems. Silver is present most commonly associated with argentite but the grades are very low. The sulphides comprise pyrite, arsenopyrite, sphalerite and galena. Gold is sometimes associated with pyrite but is most commonly free milling. Some minor zones of elevated gold grade are detected in the country rock immediately adjacent to the vein system and associated with zones of disseminated sulphides.

3.2.5 Albazino

The Albazino deposit is reported to be hosted by a sequence of Jurassic clastic sediments intruded by rhyolites, rhyodacites, andesites and micro-diorites. The mineralisation is associated with the rhyodacites and micro-diorites and occurs in quartz carbonate veins surrounded by hydrothermally alteration and brecciation. The main ore minerals are pyrite and arsenopyrite but there are also minor amounts of chalcopyrite, pyrrhotite and galena present. The total sulphide content varies up to 10%.

The deposit itself comprises two orebodies, Anfisinskaya and Olginskaya, which occur roughly along strike of each other and which are separated by some 700m. These orebodies are not individual veins but rather zones of increased veining and brecciation. Both strike roughly north-northwest for several hundred metres and dip at shallow to moderate angles to the east-northeast. For the purpose of resource estimation, the two orebodies have been further sub-divided into a series of sub-parallel zones, or domains, based on a 0.5g/t Au cut-off each of which varies between a few metres and tens of metres in width and extends along strike and down dip for between tens and a few hundred metres.

3.3 SRK Comments

The local structure at each of the deposits appears to be well understood both by the geologists at the mines and the geological staff at head office and is in SRK's opinion sufficiently robust to support the Mineral Resource estimates derived for the deposits and commented in Section 5.0 of this MER.

4 EXPLORATION PROPERTIES

4.1 Introduction

This section describes the exploration potential of the Company and gives an overview of the exploration strategy and the current exploration activity including the geological environment within which the various properties occur, exploration programmes and forecasted expenditures. Further details regarding title has been presented in Section 2.0 of this MER and in the main body of the Prospectus.

4.2 Exploration Strategy

The Company's exploration and development activities consist of exploration around its existing deposits, stand alone development projects and regional exploration campaigns. The Company's exploration portfolio,A- (Table 4.1) includes 11 licences covering an area of approximately 3,000km^2. The areas represented by the operating mines include six licences covering an area of approximately 165km^2.

The Company has established specialised exploration subsidiaries to conduct exploration campaigns and carry out all necessary activities including diamond drilling, trenching, geochemical sampling and sample preparation.

The exploration programmes in the vicinity of Dukat, Vorontsovskoye, Lunnoye and Khakanjinskoye are specifically aimed at either extending the economic life of the existing mining operations or supply expanding production.

In addition to the above the Company has entered into a preliminary agreement to establish a strategic alliance with AngloGold Ashanti and has also recently concluded a joint venture agreement with Mongolrostsvetmet. These agreements and any associated assets were not reviewed by SRK and salient features of which are only reported here for completeness. For further detail the reader is referred to the main body of the Prospectus.

Table 4.1 Exploration Properties: salient features of current title

Exploration Property	Prospects	Area (km^2)	Location	Licence (No)	Expiry (date)	Licence Type
Stand-Alone Exploration Projects						
Albazino	Albazino	82.00	Khabarovsk Territory	1	31/01/2015	Exploration & Production
APU(1)	Talovy Prospect	161.50	Chita Region	1	30/09/2008	Exploration
	Rudni Prospect		Chita Region		30/09/2008	Exploration
	Aprelkovsko		Chita Region		30/09/2008	Exploration
	Peshkovsky Prospect					
Anenskoye(2)	Anenskoye	11.80	Krasnoyarsk Territory	1	31/12/2006	Exploration
Fevralskoye	Fevralskoye Prospect	0.59	Sverdlovsk Region	1	30/09/2018	Exploration & Production
	Reftinskaya Prospect		Sverdlovsk Region		30/09/2018	Exploration & Production
Galkinskaya	Galkinskaya	3.50	Sverdlovsk Region	1	31/12/2010	Exploration
Khakarinskaya	Khakarinskaya	64.00	Khabarovsk Territory	1	31/12/2025	Exploration & Production
Subtotal		**323.39**		**6**		
Regional Exploration Campaigns						
Omsukchan	Dukat Ore Field License	40.60	Magadan Region	1	30/11/2031	Exploration & Production
	Dukat Prospective Area	2,420.00	Magadan Region	1	18/07/2011	Exploration
Okhotsk	Arkinskaya Prospect	135.00	Khabarovsk Territory	1	31/07/2011	Exploration
Sverdlosk	Katasminskaya Prospect	28.20	Sverdlovsk Region	1	31/03/2031	Exploration & Production
	Rudnichniy Prospect	7.90	Sverdlovsk Region	1	31/08/2011	Exploration
Subtotal		**2,631.70**		**5**		
Total		**2,955.09**		**11**		

(1) The licence statistics given for APU applies to the combined prospects. Furthermore these assets are subject to the conditions of the proposed AngloGold Ashanti Strategic Alliance.

(2) The licence statistics given for is subject to change as the Company has applied for conversion of the exploration licence to a combined production and exploration licence with a total area of 42km^2. Furthermore these assets are subject to the conditions of the proposed AngloGold Ashanti Strategic Alliance.

Equity participation in the exploration assets are largely through wholly owned subsidiaries with the exception of the following:

- The 50% interests in the assets comprising the proposed AngloGold Ashanti Strategic Alliance. These specifically apply to APU, Anenskoye, the Veduga Prospect and the Bogunay Prospect. The last two assets are those contributed by AngloGold Ashanti to the proposed strategic alliance;
- The 85% interest in Fevralskoye with the remaining 15% held by a third party; and
- The 50% interest in the assets comprising the Mongolrostsvetmet Joint Venture.

4.3 Dukat Prospect

The Dukat Prospect is located in the Omsukchan Region of Far Eastern Russia and is approximately 600km northeast of Magadan. The Company owns two licences which completely surround Dukat Mine. The licence immediately surrounding the mine covers an area of 11.4km^2 and is itself surrounded by a larger licence (the "Dukat Prospective Area") which covers an area of 2,420km^2. Both licences are owned by the Company. The licence covering the Dukat Prospective Area was granted on 25 August 2006 and will expire 18 July 2011.

Detailed exploration comprising geological mapping, geochemistry, trenching and some diamond drilling was completed throughout the smaller licence in 2006. Drilling is ongoing and a total of 22,000m of drilling is planned at 8 targets in 2007. Gold/silver mineralisation is associated with quartz-chlorite-adularia and quartz-rhodonite veins, vein zones and areas of silicification.

Currently there is insufficient information available to derive any Mineral Resource estimates as defined by the JORC Code. The available geological data, however, indicates that the licence is highly prospective, that further exploration is justified and that the area has the potential to materially add to the Mineral Resources as currently presented for Dukat Mine.

The larger licence is at a grass-roots exploration stage and the Company plans to complete a follow-up programme of approximately 12 targets and anomalies originally defined by the State Geological Survey during 2007. Further work will include regional geochemistry, reconnaissance and detailed mapping, followed by trenching and diamond drilling of the better targets. SRK considers this area to be highly prospective and that further exploration is justified.

4.4 Aprelkovsko-Peshkovsky Unit Prospect

The Aprelkovsko-Peshkovsky Unit ("APU") Prospect is located in the Chita Territory of south-eastern Russia and is approximately 200km east of Chita. The licence covers an area of 161.5km^2 and is owned by Imitzoloto Limited a wholly owned subsidiary of the Company. The licence (No. ЧИТ 01422 БП) was granted on 7 August 2003 and will expire on 30 September 2008.

Two significant intrusion-related exploration targets (Talovy and Peshkovskiy), a sheeted vein complex (Rudni) and a granite with quartz-veins (Aprelkovskoye) have been identified on the basis of historic data and the Company's 2006 exploration programme. The Pogromnoye Gold Mine, which is held by Orlan, is located just beyond the western edge of the licence and preliminary field evidence indicates that the strike extension of mineralization may extend southwards into the Company's Licence. Pogromnoye is an operating gold mine and the ore is being treated using heap leach technology.

Historical data suggests that approximately 225koz of alluvial gold was produced from the streams draining the Talovy occurrence, approximately 640koz was produced from streams draining the Aprelkovsko occurrence and unknown but probably lesser amount of alluvial gold was produced from the streams draining the Peshkovskiy Ore Field.

In SRK's opinion the Aprelkovsko-Peshkovskiy Ore Field is a very prospective area. The Company has a well designed exploration strategy comprising detailed mapping, over 2,700m of bedrock geochemical drilling, 42,000m^3 of trenching and approximately 5,000m of drilling. The exploration is fully justified by the potential size of the mineralized system, historic production of placer gold and grades of the trench assay results to date.

At the **Talovy Prospect**, where most work at this prospect has been conducted the Company has completed a 1,347 hole 'Cobra' bedrock geochemical drilling programme and over 22,000m^3 of trenching. The maximum hole depth of the Cobra programme was 8m and the average was 3m. Mineralization is associated with quartz veins, quartz vein stockworks and areas of silicification hosted in two Jurassic syenite stocks. Both stocks are mineralized and the larger has a strike length of approximately 1.5km and a width of approximately 0.3km.

Trench sampling has intersected mineralized zones with grades of up to 10g/t Au over widths of up to 10m in the larger stock, and grades of up to 0.8g/t Au over widths of up to 70m in the smaller stock.

The Company plans to increase the density of trenches in 2007 field programme which will be followed by a diamond drill programme designed to test the higher grade zones.

The **Rudni Prospect** comprises an area of sheeted quartz veins which occur immediately to the southeast of the Talovy Prospect. Outcropping veins have a strike length of approximately 200m and are likely to have strike extensions under cover. Trenching by the State Geological Survey identified zones of strong mineralization with intercepts of up to 2g/t Au over 170m.

The origin of the veins and style of mineralization is uncertain and the Company is planning to conduct detailed mapping, sampling and trenching in 2007 to better assess the potential of this occurrence.

Mineralisation at the **Peshkovsky Prospect** is hosted in volcanics and sediments and appears to be associated with the emplacement of a carboniferous intrusion. The style of mineralisation is poorly defined and further work is planned to establish this better.

The **Aprelkovsko Prospect** comprises an intensely quartz-veined granite stock of which very little is known. The Company has planned a detailed mapping, geochemical and trenching programme for 2007.

4.5 Anenskoye Prospect

The Anenskoye Prospect is held within the southern part of the Yenesi Ridge in the Krasnoyarsk Region of Central Russia. The Yenisei Ridge is one of the major gold provinces of the Russian Federation. Mining of the placers in rivers draining the Yenisei Ridge began in 1837 and approximately 22.5Moz of placer gold have been produced to date. Eight dredges are still operational for an annual production of approximately 1t of gold.

In the early 1900s attention shifted to the primary lodes from which the placer gold was derived following the discovery of native gold in quartz veins at Sovietskoye. The Sovietskoye Deposit was mined as an open pit and an underground mine to a depth of 390m. Other notable deposits in the area include El Dorado, Olimpiada, Veduga and Blagodatnoe.

The Anenskaya Ore Field is held within Exploration Licence KPP 01419 БП which covers an area of 11.8km^2. The licence is owned by wholly owned subsidiaries of the Company. The licence was granted on 12 April 2004 and will expire on 31 December 2006. A new application has been filed for an area of 42km^2 which includes the original licence and the area immediately surrounding.

The mineralization at Anenskaya comprises a greenstone-hosted quartz-lode deposit which dips at approximately 35°. The Company has completed a 'Cobra' drilling bedrock geochemical programme which has identified several strong gold-zinc-lead-arsenic geochemical anomalies. Two ore zones have been defined to date by diamond drilling to a depth of 120m. The average vein thickness is 1.5m. Approximately 550koz of gold has been mined from placers in the surrounding drainages.

The Company has stopped field work pending the grant of the new licence but has already identified six further targets which warrant testing. Available evidence indicates that the Anenskaya Ore Field is a significant exploration target with a high potential.

4.6 Katasminskaya, Galkinskaya, and Rudnichniy Prospects

The Katasminskaya and Galkinskaya areas and Rudnichniy ore field are located within the Sverdlovsk Region of the southern Urals. Occurrences are held within three licences comprising licence CBE 13533 (Katasminskaya: 28.2km^2) which expires on 1 March 2031, licence CBE 13448 БП (Galkinskaya: 3.5km^2) which expires on 31 January 2010 and licence CBE 02227 БП (Rudnichniy: 7.9km^2) which expires on 31 August 2011. All licences are held within wholly owned subsidiaries of the Company. The Rudnichniy licence is located immediately north of Vorontsovskoye but has only recently been granted and no material work has been completed on it by the Company to date.

At the **Katasminskaya Prospect** gold-silver mineralisation within the area is of a vein-hosted epithermal-type hosted in Carboniferous and Devonian tuffs and volcaniclastic sediments. Mineralization is associated with quartz-sericite-pyrite alteration. Historic data indicates that small placers were previously mined in the Katasminsky River.

Exploration is at an early stage and has focused on a priority area within the central zone of the Katasminskaya licence where a 24m wide zone of mineralisation has been identified coincident with an IP anomaly over a strike length of over 600m. Mapping, trenching and grid drilling is planned for 2007.

At the **Galkinskaya Prospect** gold-silver mineralisation within the area is of a breccia-hosted type of possible epithermal origin. Mineralization is associated with dacitic and felsic intrusives which intrude cogenetic tuffs and younger volcanoclastics. Quartz-sericite alteration is associated with the mineralized breccias which have a strike length of up to one kilometre. Parts of the prospect are covered by up to 15m of colluvium.

The Galkinskaya area was originally explored in the 1960s and was drilled as a copper-zinc target but was abandoned due to poor results. Resampling of exploration pits and some core by the Company however has confirmed the system to be gold-bearing. The Company commenced diamond drilling in the third quarter of 2006 and a total of 12 holes have now been completed which have yielded mineralized intersections up to 10m wide with grades of up to 1.6g/t Au and 100g/t Ag.

The Company is planning an aggressive drilling campaign at Galkinskaya Prospect during 2007. SRK considers that assay results from preliminary holes justify ongoing exploration and there is good potential for this to define mineral resource estimates in due course.

The **Rudnichniy Prospect** is located 4km from the Vorontsovskoye. The Company has targeted the area for greenfield exploration effort due to historic and current prospectivity, supporting infrastructure and access to qualified personnel. During the third quarter of 2006, the Company commenced preparations for geological exploration at the Rudnichniy Prospect and initial drilling is planned in 2007.

4.7 Fevralskoye Deposit and Reftinskaya Ore Zone

The Fevralskoye Deposit and Reftinskaya Ore Zone are located in the Sverdlovsk Region and occurs within the licence CBE 02053 БР which covers an area of 0.01km^2. The licence is held by the closed Joint Stock Company Aurum and will expire on the 16th of September 2018. JSC Aurum is 85% owned by the Company and 15% owned by a minority shareholder.

The Fevralskoye deposit is a slate hosted gold system in which mineralisation is hosted in a 150m to 200m wide, north-northwest to south-southeast trending shale zone which occurs between a diorite to the west and an unidentified porphyry to the east. Mineralisation has been identified over a strike length of 4.5km.

The Company's exploration is at an early stage and comprised geological mapping, bedrock geochemical sample and Induced Polarisation ("IP") and field magnetic geophysical studies.

Preliminary drilling has yielded intersections of up to 3.9g/t Au over 9m but also that vein distribution is irregular which can be typical of mesothermal systems. An extensive diamond drill programme is planned for 2007.

Based on the historic gold production, mesothermal style of mineralisation over a strike length of 4.8km, and the significant intercepts encountered to date, SRK consider this a high priority target with excellent potential and that further drilling is fully justified.

4.8 Khakarinskaya Prospect

The **Khakarinskaya Prospect** is located in the Khabarovsk Territory covered by exploration licence ХАБ 01960 БР which is owned by a wholly owned subsidiary of the Company. The licence covers an area of 64km^2 and expires on the 31st of December 2025.

Gold mineralization is associated with epithermal veins and stockworks hosted in a quartz-sericite altered rhyolite. Mineralized hydrothermal breccias have been reported. Historic drill holes returned intercepts of up to 25m at 9.1g/t Au and numerous high grade rock-chip samples (up to 369g/t Au) have been reported.

The Company's exploration is at an early stage and detailed geological mapping, trenching and preliminary scout drilling is planned for 2007. Available data indicates that the Khakarinskaya Prospect is a robust exploration target which warrants further work.

4.9 Agreements and Joint Ventures

4.9.1 AngloGold Ashanti Strategic Alliance

In September 2006, the Company entered into a preliminary agreement to establish a strategic alliance (the "Proposed Strategic Alliance") with AngloGold Ashanti, a leading international gold producer with operations on four continents. It is planned that the Proposed Strategic Alliance will be formed on a 50/50 basis and will pursue gold mining opportunities through exploration, development and, potentially, selected acquisitions of mining properties in Siberia and the Russian Far East, excluding regions where the Company already has established operations. Both parties will contribute assets and hold a stake equal to 50% of the Proposed Strategic Alliance. The Company will contribute two exploration properties to the proposed strategic alliance: Anenskoye in the Krasnoyarsk Territory and Aprelkovskoye-Peshkovsky in the Chita Region. In addition, the Company will contribute US$12m in cash to the Proposed Strategic Alliance. AngloGold Ashanti will contribute the advanced Veduga Prospect as well as the Bogunay exploration Prospect, both of which are located in the Krasnoyarsk Territory. The assets contributed by the Company and by AngloGold Ashanti to the Proposed Strategic Alliance are currently valued by the parties to the proposed strategic alliance at US$56m. Pursuant to the terms of the proposed strategic alliance, the parties' interests in Russia will be divided into three broad regions:

- **Exclusive areas**, comprising all of Russia east of the Ural mountains except for the non-exclusive areas, within which the parties may only pursue gold mining opportunities through the proposed strategic alliance. Should the proposed strategic alliance elect not to pursue any such opportunity, however, then the party that proposed and was in favour of such opportunity may pursue it outside of the proposed strategic alliance;

- **Non-exclusive areas**, including the regions of Chukotka, Irkutsk, Kamchatka, Khabarovsk, Koryakia, Magadan and Sverdlovsk, within which the proposed strategic alliance imposes no restrictions on the pursuit of gold mining opportunities by the parties. The pursuit of gold mining opportunities, however, through the Proposed Strategic Alliance is also possible should both parties agree to do so; and
- **Other areas**, representing the rest of Russia other than the exclusive areas and the non-exclusive areas (essentially all of Russia west of the Ural mountains), within which either party may pursue gold mining opportunities solely and independently, but not together with a third party as part of a consortium, unless the Proposed Strategic Alliance elects not to pursue such opportunity.

4.9.2 Mongolrostsvetmet Joint Venture

In December 2006, the Company formed a limited liability company, the MJV, with Mongolrostsvetmet in order to pursue a joint venture opportunity in Mongolia. The MJV seeks to pursue the development of the Asgat polymetallic silver deposit in Mongolia. The Asgat deposit is located in northwest Mongolia near the Russian border, approximately 180km from Ulgiy, the regional capital of the Nogonnurskiy region. The MJV was formed as a Mongolian limited liability company with each party holding 50% of the share capital. The Company contributed US$250k in cash in return for its shares in the MJV. Mongolrostsvetmet made a contribution in kind of assets valued by the parties at US$250k, comprising certain geophysical, geological and geochemical information and data relating to the Asgat deposit and mine openings, equipment and other material assets. Pursuant to the terms of the shareholders agreement, the Company has agreed to provide financing and operational management for the MJV.

4.10 Exploration Programme

The Company has developed an exploration programme to advance both on-mine exploration, expansion and the exploration properties. Table 4.2 below gives the planned exploration expenditures which have been established for 2006$^{(Q4)}$ and 2007. This expenditure encompasses the Company's commitments in respect of grass-roots exploration activities, technical studies and regional expenditures for logistical support.

Total planned exploration related expenditures (excluding the Joint Ventures) from 1 October 2006 through 31 December 2006 are forecasted at US$6.1m, and US$26.4m for calendar 2007. This can be compared with historical expenditures (inclusive of acquisition costs) of US$1.5m, US$2.5m, US$2.3m and US$9.7m for 2003, 2004, 2005 and 2006$^{(H1+Q3)}$ respectively.

The Company expects exploration expenditures planned for 2007 to continue at some US$21.0m through to 2009 inclusive however future expenditures in 2008 onwards will be dependent on the successful exploration results in 2007.

Table 4.2 Exploration Properties: expenditure programme

Exploration Property	Prospects	2007 (US$m)
Stand- Alone Exploration Projects		
Albazino	Albazino	5.33
APU	Talovy Prospect	1.58
	Rudni Prospect	
	Peshkovsky Prospect	
	Aprelkovsko Prospect	
Anenskoye	Anenskoye	0.53
Fevralskoye	Fevralskoye Prospect	1.86
	Reftinskaya Prospect	
Galkinskaya	Galkinskaya	
Khakarinskaya	Khakarinskaya(1)	4.84
Subtotal		**14.13**
Regional Exploration Campaigns		
Omsukchan	Dukat Prospect(2)	6.90
	Dukat Prospective Area	
Okhotsk	Arkinskaya Prospect	
Sverdlovsk	Katasminskaya Prospect(3)	5.33
	Rudnichniy Prospect	
Subtotal		**12.23**
Total		**26.37**

(1) Includes expenditures for Khakanjinskoye Mine, Yurievskoye Project and Arkinskaya Prospect.

(2) Includes expenditures for Lunnoye Mine, Arylakh Project and Dukat Ore Field.

(3) Includes expenditures for Vorontsovskoye Mine, Galkinskaya Prospect and Rudnichniy Prospect.

4.11 Summary Comments

The Company's area selection to date has been based on rigid geological and economic criteria and has resulted in a diverse and high quality exploration portfolio,A-. This exploration, which comprises work in the immediate vicinity of its existing assets to potentially extend the life of these, infill drilling and resource definition work on more advanced exploration properties and grass roots exploration at a reconnaissance level, has been well designed, of a high quality and appropriate for the styles of mineralisation present.

The Company has developed a detailed plan for the exploration it plans to undertake during 2007 and a long term commitment to ongoing exploration of the above licences the detail of which will be set each year based on the results achieved during the preceding year. The exploration planned for 2007 is clearly focused on answering specific strategic questions with to exploration potential and/or definition of additional resources while its long term strategy is to systematically confirm the potential of the individual existing assets, focus exploration on those with most potential, and identify opportunities to extend its asset base through both grass roots exploration and further acquisitions.

SRK considers that the Company's approach to licence acquisition, grass roots reconnaissance, project exploration and resource definition drilling of the more advanced projects is of a high standard and that as a result the exploration licences held by the Company have good potential to add materially to the Mineral Resource statements presented in Section 5.0 of this MER.

SRK notes that it has specifically not assessed the historical expenditures nor the acquisition costs for the exploration properties. Furthermore, SRK has not been requested to derive a valuation for the Exploration Properties which would generally required consideration of such information in addition to the projected expenditures incorporated into the planned exploration programmes.

5 MINERAL RESOURCES AND ORE RESERVES

5.1 Introduction

This section summarises the methods used by the Company to derive and classify the Mineral Resources and Ore Reserve estimates for the Mining Assets. It also presents SRK's comments and opinions of the reasonableness of these estimates and presents Mineral Resource and Ore Reserve statements as appropriate. In addition, this section sets out SRK's view regarding the potential for proving up further Mineral Resources and Ore Reserves at the Mining Assets.

5.2 SRK Review Procedures

SRK has not re-estimated the Mineral Resource and Ore Reserve statements as estimated by the Company for each of the Mining Assets. SRK has, however, undertaken sufficient check calculations and where appropriate, made necessary adjustments to the estimates as presented herein and incorporated into the respective LoMp.

Notwithstanding the above, SRK has reviewed the Company's processes used to derive its Mineral Resource and Ore Reserve estimates since 2003. Specifically SRK has overviewed the process of converting from historical manual estimation as generally applied Russia to the current JORC Code compliant estimates. These estimates are derived using 3D computerised techniques and in SRK's opinion are aligned with good international practice. In arriving at its opinion, SRK specifically has:

- Reviewed and agreed the generation of the geological wire-frames;
- Reviewed and agreed the estimation parameters prior to interpolation of grades into the geological model;
- Reviewed the principal parameters used to derive and state "potentially economically mineable Mineral Resources' and the Ore Reserves, specifically the commodity prices and the modifying factors; and
- Undertaken direct comparisons between the estimates produced as at 1 January 2006 and the first JORC Code compliant estimates generated by the Company, dated 1 January 2005, and reviewed by SRK.

The tables in this section summarise SRK's statements of Mineral Resources and Ore Reserves. The terms and definitions are those given in The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

In respect of the Albazino Project, the Mineral Resource estimates as presented by the Company have been audited by Snowden Mining Industry Consultants Pty Limited ("Snowden"), part of Roche Mining MT ("Roche") the wholly owned mining division of Downer EDI Limited a public company listed on the Australian Stock Exchange. In presenting the Mineral Resource statements for the Albazino Project, SRK has:

- Reviewed the estimation and classification procedures and confirmed that the resulting statements have been generated in an appropriate and unbiased manner; and
- Not visited the site, nor inspected any of the core, therefore relied on the Snowden's opinion that the statements as re-produced herein are reported in compliance with the JORC Code.

In presenting the Mineral Resource and the Ore Reserve statements for the Mining Assets the following apply:

- Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce Ore Reserves. Accordingly, and where appropriate, Mineral Resource statements are sub-divided into those Mineral Resources which have been modified to produce Ore Reserves (designated by the suffix 1) and those which have not (designated by the suffix 2);
- Mineral Resources are quoted at an appropriate in-situ economic cut-off grade which satisfy the requirement of *'potentially economically mineable'* for open-pit and underground mining separately. Furthermore, the commodity prices incorporated into the cut-off grade calculations are US$550/oz for

gold and US$8.00/oz for silver. Open-pittable Mineral Resources are derived from application of appropriate cut-offs within optimised shells derived using a gold price of US$500/oz and US$8.00/oz;

- Ore Reserves are based on a gold price of US$450/oz and a silver price of US$7.00/oz (see Section 1.0 and 14.0 of this MER for spot prices as at 1 October 2006);
- Mineral Resources and Ore Reserves were estimated as part of the Company's annual planning cycle dated 1 January 2006. These statements have not been adjusted by means of re-estimation but have been adjusted by SRK to reflect depletion as at 1 October 2006;
- Unless otherwise stated all Mineral Resources and Ore Reserves are quoted on an equity attributable basis assuming 100% ownership as at 1 October 2006;
- All Ore Reserves are quoted in terms of RoM tonnage and grades as delivered to the metallurgical processing plants and are therefore inclusive of all appropriate modifying factors;
- Ore Reserve statements are derived from LoMp which are based solely on Measured and Indicated Mineral Resources and specifically exclude Inferred Mineral Resources;
- Ore Reserve sensitivities, where reasonable to estimate, have been derived from application of the relevant in-situ cut off grades and application of modifying factors at a range commodity prices for gold (US$270/z; US$360/oz; US$450/oz; US$540/oz; and US$630/0z) and silver (US$4.20/oz; US$5.60/oz; US$7.00/oz; US$8.40/oz and US$9.80/oz): In respect of the open-pits incremental optimised shells were developed for the range of commodity prices which were then used to constrain the open-pittable Ore Reserves. It should however be noted that these are not supported by appropriately detailed LoMp and should therefore be considered as incremental changes to the declarations as reported herein;
- All references to Mineral Resources and Ore Reserves are stated in accordance with the JORC Code; and
- In respect of the Exploration Properties, Mineral Resources are only reported for the Albazino Project.

In consideration of the above, specifically the concept of "potentially economically open-pittable Mineral Resources' and following receipt of additional information supplied by the Company, SRK has included additional declarations which support the Mineral Resource statements for the Albazino Project.

Surface sources at the Mining Assets comprise low grade stockpiles which are notoriously difficult to sample, given the range of particle sizes commonly present and the resultant heterogeneity of grade encountered during small-scale sampling operations. Notwithstanding the fact that certain of the stockpiles are an integral part of the mining and processing operations and are in current use, SRK has classified all stockpiles as Indicated Mineral Resources and where planned to be processed economically reported these as Probable Ore Reserves.

5.3 Mineral Resources and Ore Reserves Estimation

Mineral Resource and Ore Reserve estimation and classification is dependent upon the quality and quantity of data, geological modelling, statistical analysis, variography, grade interpolation, model validation, reconciliation, appropriate technical studies (LoMp) including application of modifying factors. At the Company, this process is largely undertaken at the Head Office with input from on-site management as appropriate.

The Mineral Resource and Ore Reserve estimation process is undertaken at the Company's head office by a team of technical experts comprising, mining geologists, mining engineer's, and metallurgical engineers who are also supported by other technical disciplines as appropriate: geotechnical engineers, hydrogeological engineers, tailings engineers, environmental specialists and economists. These technical experts also rely on appropriate input from on-site technical staff and management.

Since 2003, the company has embarked on a process to update its Mineral Resource and Ore Reserve estimation and reporting basis in accordance with good international practice. This process has culminated in the JORC Code complaint statements for 1 January 2005 and 1 January 2006. These statements were derived from 3D block models and orebody wireframes and incorporating semivariogram modelling, kriging, pit optimisation and detailed mine scheduling largely using commercial software which is specifically developed for the mining industry.

In addition and in order to fulfil its statutory requirements, the Company produces annual 5GR reports in the first quarter of each calendar year. These 5GR reports reflect the resource status for each of the Mining Assets as of 1 January. Whilst these reports are produced using computerised techniques they are effectively based on standard 2D Russian manual methodologies and protocols. The 5GR reports are however not the subject of this MER and are accordingly not reported on herein.

The following sections describe the estimation and classification of Mineral Resources and Ore Reserves reported in accordance with the JORC Code under the following headings: quality and quantity of data; grade and tonnage estimation; classification; selective mining units; grade control and reconciliation; and Ore Reserve estimation.

5.4 Quality and Quantity of Data

The resource estimation process at the Mining Assets is based on exploration drilling (surface and underground) and grade control sampling and drilling. The Mining Assets have, as is normal for projects primarily explored between the 1950s and 1990s in Russia, undergone a rigorous exploration programme comprising a significant amount of trenching and drilling and, in most cases, underground development prior to any decision being made on project development.

The operating mines are also subject to ongoing grade control and verification sampling which is used along with production data to continually update and confirm the resource and reserve estimates. All of this data has been subject to both internal and external check assaying protocols and in those cases where concerns have been raised these have been addressed and procedures reviewed. The Company itself has also overseen the construction of more modern sampling and assaying equipment and facilities at several of the mines.

SRK notes that the laboratories are not ISO accredited. In respect of the operating mines, SRK consider that Mineral Resource and Ore Reserve reporting is justified given: the support of historical gold and silver production and reconciliation; and that there has been no significant change in the procedures used at the laboratories since the previous Ore Reserve statements that would have a material effect on the current Ore Reserve statement. In respect of the Feasibility Projects, namely Arylakh Project and Yurievskoye Project where historical production is absent, SRK notes the extent and density of exploration activity including underground exploration. This in conjunction with similar processes for sample collection, preparation, analysis and quality control procedures as applied at the operating mines provides appropriate comfort to support the Mineral Resources as reported herein.

As the Albazino Project has only recently been acquired, more detailed quality control procedures inclusive of external check assaying have yet to be implemented. Completion of this work should bring the quality of this data up to the same standard as at the operating mines.

Overall SRK is confident that there is sufficient data of sufficient quality to support the Mineral Resource and Ore Reserve estimates as reported in this MER.

5.4.1 Dukat

Over 90km of underground workings have now been developed and the information obtained from this is supplemented by both trench sampling and the results of over 340km of diamond core drilling.

Underground sampling has historically been carried out along the drives and in crosscuts spaced at 25m intervals along these. Close spaced grade control drilling is also undertaken within open pits and underground to further define the thickness and grade of the ore bodies. A portable isotope fluorescence analyser ("PIFA") is also used to determine the silver grades of material on dumps/stockpiles and in pit faces and also to determine the hangingwall and footwall economic cut-offs in underground exposures. This method is claimed to have a sensitivity of 20g/t Ag and comparisons with assayed material have indicated that it is accurate to within 10%.

The sample preparation protocol is a multistage process which involves jaw and roll crushing of all the core samples with five separate screening and sample reduction (50:50) stages. Reject sample at each stage is discarded with the exception of the final stage when the -1mm material (typically 0.5kg to 0.75kg) is split into duplicate and routine samples. The latter are then disk milled to 0.07mm and sent for assay. Internal and external check assays are carried out and while some of the historical external assaying has occasionally identified periods where precision in the mine laboratory has been poor, these results have been acted upon and procedures reviewed. Overall, the quality of the data has been supported by the results obtained from the external laboratories and SRK has no reason to doubt the overall integrity of the assay values now available.

5.4.2 Vorontsovskoye

The Vorontsovskoye Mine was discovered in 1985 and was explored up until 1999. In total, over 1,500 vertical diamond core holes have been drilled with a total drilled length of 130km and some 380 crosscuts have been driven from a number of underground drives and shafts. In total, over 900,000 samples have now been taken including grade control, underground and surface drilling samples.

Although drilling was initially carried out on an 80m by 40m exploration grid, the central portion of the mineralisation was subsequently infilled to a 40m by 20m grid and some areas have been infilled drilled further to a 10m by 10m grid.

The average core recoveries for the oxide and primary material were 94% and 83% respectively, providing a reasonable degree of confidence in sample quality.

The mine operates a Boart-Longyear rig which produces HQ sized core. This large core size allows the cutting of core longitudinally for the purposes of sampling. In addition, the mine has two Russian ZIF rigs with a capacity of 650m and two 4RB rigs with a capacity of 300m, both producing 76mm core.

Annual production planning is based on the 20m by 20m drill grid and is used for delineating un-pay areas and also for locating and delineating barren dykes which cross cut the ore body.

Grade control sampling is carried out, initially by digging trenches across the ore body at 10m intervals and sampling of these is carried out at 1m intervals along the trench. Infill drilling by percussive hammer ("DTH") method is carried out on a roughly 5m by 10m grid between the trenches and this drilling is carried out to a maximum depth of 10m (two benches). Samples generated for grade control are reported to be between 8kg to 10kg in weight. In addition to the grade control sampling, detailed geological mapping of each bench is carried out at a 1:200 scale.

Both internal check and duplicate assays and external check assays are carried out, although all external laboratories are located within Russia or the CIS. SRK has examined the results of most of the check analyses and is able to confirm that these have in general supported the integrity of the original values.

5.4.3 Lunnoye

Lunnoye Mine has been explored by trenching, over 17,000m of diamond drilling and by the sampling of an exploration drive which was driven beneath the present pit.

The trenches were constructed at 50m intervals along the strike of the ore body while crosscuts were driven from the main underground drive at 25m intervals. Drilling was carried out on a 100m by 100m grid. Core recovery reportedly averaged 90%.

Grade control is currently carried out by percussive air blast drilling on each 7.5m bench. At 10m intervals along strike, a horizontal hole is drilled from the hangingwall to intersect the ore body; these holes are generally 15m to 20m in length. Inclined holes are also drilled to a 25m by 25m grid. This drilling is carried out one bench ahead of production in order to allow a full bench to be grade control drilled prior to mining.

Drill holes are scanned using a PIFA to determine Ag grade and the location of ore contacts. The ore zone is then sampled over 1m intervals but these may be reduced to 10cm on geological grounds. Sampling continues for 3m on either side of the ore zones. Silver grades are determined by X-Ray Fluorescence ("XRF") analysis and, as a check, 20% of samples are submitted for fire assay.

The sample preparation protocol is a multistage process which involves the jaw and roller crushing of all the core (not split longitudinally) with five separate screening and sample reduction (50:50) stages. Reject sample at each stage is discarded with the exception of the final stage when the -1mm material (typically 0.5kg to 0.75kg) is split into duplicate and routine samples. The latter are then disk milled to 0.07mm and sent for assay.

Internal and external check assaying is carried out and in general no material errors or problems with precision have been identified.

Arylakh Project has been evaluated by surface drilling, trenching and the development of some 6km of underground development.

The trenches are excavated at a spacing of between 50m and 100m along strike and 1m samples are taken within these. The underground sampling was taken from two main adits located on the 750m (adit 1) and

639m (adit 2) levels. Sampling was taken from cross-cuts spaced at 20m to 25m intervals. Drill hole intersections into the ore bodies were originally on a 200m by 100m grid, but this has now been largely infilled to 100m by 50m (strike × dip).

The sample collection, preparation, analysis and quality control procedures at Arylakh Project are identical to those at Lunnoye Mine.

5.4.4 Khakanjinskoye

Khakanjinskoye Mine has been explored by over 11km of underground workings, 13,000m of drilling, 5km of surface trenches and 380 small surface exploration pits. The upper three levels of the underground development are spaced 30m apart while the lowermost level is some 60m below the third level. Below the fourth level the ore body has been intersected by diamond drilling on approximately a 50m grid to a maximum depth of some 650m.

Sampling cross cuts have been developed from the underground development every 25m though intermediate crosscuts have been developed in areas where the orebody thickness is more variable.

The mine operates a Boart-Longyear rig which produces HQ sized core (nominal core diameter of 63.5mm) in hangingwall waste and NQ (nominal core diameter of 47.6mm) within the mineralised section. Within the pit grade control is facilitated by blast hole sampling.

The sampling protocol for the mine requires that all new drill core (NQ) within the mineralised zone is crushed to meet State Committee requirements for a minimum sample volume. Samples are collected over 1m intervals.

The sampling protocol uses two stages of crushing, screening and homogenisation (with one sample split and discard) before the first main split of -1mm material 1kg of this 2kg split is submitted to the Central Laboratory, Moscow, for external check analysis. The second -1mm split is submitted to three further stages of splitting, discard and homogenisation before final pulping to -0.1mm and the splitting of two 0.125kg samples as routine and duplicate samples.

SRK has examined the results of both the internal and external check assays and is able to confirm that these have in general supported the integrity of the original values.

The Yurievskoye ore body has been evaluated from some 3,000m of underground development sampling, 8,200m of drilling and over 20km of surface trenching. Underground crosscuts have been driven every 25m and sampled on 1m spacing. Surface trenches were dug at 20m intervals along strike and were also sampled at 1m intervals.

The sample collection, preparation, analysis and quality control procedures at Yurievskoye Project are identical to those described above for Khakanjinskoye Mine.

5.4.5 Albazino Project

Detailed exploration at the Albazino Project commenced in 1990 and has comprised trenching and drilling only. No underground development has yet been undertaken. In total, some 159 trenches have now been excavated and 144 drillholes completed forming a rough 50m by 100m grid. The trenches are sampled at an average length of 1m according to geological contacts and the resulting sample weights typically very between 10kg and 14kg. The core drilling has been undertaken using three different diameters (93mm, 76mm and 59mm), the two larger cores being halved prior to sampling and the smaller core being sampled in its entirety. Again sample lengths vary, but average 1m. All this work was undertaken prior to the acquisition of the asset by the Company.

Sample preparation has been carried out at site. Samples are crushed and milled and then split to produce pulps that typically weigh between 0.5kg and 0.8kg. The assaying has been carried out at a certified Russian laboratory in Khaborovsk, but although internal assaying check assaying protocols were observed, the only external checking that has been carried out was that done by the Company during its own due diligence process.

5.4.6 Grade and Tonnage Estimation

The estimation methodology and approach at the Mining Assets follows a fairly standardised process. In all cases, the orebodies are first divided into geologically similar zones, or domains, and wireframes are then produced for each using an appropriate cut off based on geological contacts, a natural break in grade or where both are absent, a grade appropriately lower than the mining cut-off. Once this is complete, a series of classical statistical analyses are carried out to determine the nature of the assay distributions, the relationships between different types of sample types, the basis of the compositing and the need for any top cutting of high outlier (hurricane) values.

The resulting data sets are then used to prepare semivariograms which are then used in turn to derive appropriate ordinary kriging parameters. Block models are then produced with appropriate sizes to reflect the data density and degree of mining selectivity required and finally the composited data is interpolated, normally in a series of passes, into the block models to derive block grades which are then constrained by the wireframes.

Densities are then applied to each block based on the significant amount of density data that is available in each case which are then used to derive estimates of tonnage for each wireframe at different cut-offs.

5.4.7 Classification

Classification of the Mineral Resources at the Mining Assets is based on specific classification criteria for each orebody where different areas of each domain subdivided into Measured, Indicated and Inferred Mineral Resource categories respectively. Specifically, this is undertaken on an area basis, rather than block by block, and has taken into account the geological continuity of the respective orebodies, the density of the available sample data and quality of this and the accuracy of the grade estimation implied by the kriging parameters. This has ensured that the classification in each case takes account of the different characteristics of each orebody and the collected data and ensured the resulting estimates are reported in a comparable manner.

At the Albazino Project, the Company has applied a similar methodology to that described above. The lack of external check assaying available to date and the reliance of the interpreted geology on assays rather than geological controls, however, has resulted in limiting the highest degree of confidence to the Indicated category. SRK considers that the current classification to be broadly in line in terms of confidence requirements with the classification used for the other Mining Assets.

5.4.8 Selective Mining Units

The choice of the minimum selective mining unit ("SMU") for reporting Ore Reserves is dependent upon the mining method to be applied. For open-pits, the SMU is limited to vertical dimensions which match the bench/flitch increment and horizontal dimensions which are guided by the blasthole spacings and orebody geometry. For the underground mines these broadly mirror the stope dimensions or appropriate sub-divisions thereof.

Further, in order to ensure reporting of Mineral Resources which are *'potentially economically mineable'* the Company has further restricted reporting in accordance with the following:

- **Open-pits:** Mineral Resources which are *'potentially economically mineable'* by open-pit mining methods are currently limited to mineralised zones which are higher than the marginal in-situ cut-off grade and contained within an optimised shell derived at US$550/oz for gold and US$8.00/oz for silver. As the long term prices assumed for reporting Ore Reserves is US$450/oz for gold and US$7.00/oz for silver this reflects a net increase of 22% for gold and 14% for silver; and
- **Underground:** Similar perspectives are applied for reporting Mineral Resources which are *'potentially economically mineable'* by underground mining methods, specifically in respect of the commodity prices used to determine appropriate in-situ cut-off grades. The only other constraint applied is the exclusion of blocks whose likely extraction is limited due to following: remoteness from current/ planned mining infrastructure; technical constraints, such as, regional pillars; and limited tonnages which are unlikely to justify the necessary development.

5.4.9 Grade Control and Reconciliation

Grade Control practice at the operating mines open-pit operations are largely based on blasthole sampling (Lunnoye Mine) and trenching (Vorontsovskoye Mine) programmes. These programmes are largely focused on further defining the thickness and grade of the orebodies and demarcating blasting/dig lines to guide the differentiation of ore, marginal ore and waste. In certain instances (Lunnoye Mine) additional drilling at wider spacing is also undertaken in order to ensure that at least one full bench ahead of current production is estimated with this increased density of data.

The Company has also introduced a portable isotope fluorescence analyses ("PIFA") to determine silver grades in open-pit faces and stockpiles. This method is claimed to have a sensitivity of 20g/t Ag and comparisons with assayed material have indicated that it is accurate to within 10%. At underground operations, grade control drilling is assisted by PIFA aid in determining hangingwall and footwall economic cut-offs.

Reconciliation studies at the mining operations are largely focused on comparing estimates of tonnage, grade and metal content between the following:

- Exploration Model estimates as derived from wide spaced drilling information;
- Grade Control Model estimates as derived from closer spaced drilling/sampling information; and
- Mine-to-Mill reconciliation studies including grab sampling, belt sampling and metallurgical plant sampling (specifically thickener underflows, concentrate grades, tailings grades and recovered metal).

The extent to which these are undertaken at the mining assets varies as do the detailed reconciliations to support projected modifying factors (dilution and diluting grades). SRK recommend that further work is required in this area to further align the processes with good international practice. Notwithstanding the above comments, SRK notes that where reconciliation issues are highlighted these are generally acted upon and incorporated into future estimates as appropriate.

5.4.10 Ore Reserve Estimation

The procedure for estimating Ore Reserve at the Mining Assets is largely driven by the mine planning process as described in Section 6.0 of this MER. In summary this entails the following key steps:

- **Finalisation of the Mineral Resource inventory:** Based on the latest available data, this follows re-estimation, classification and updating for depletion as appropriate;
- **Finalisation of the Economic Parameters:** These include the following: unit operating expenditures (US$/t) based on the anticipated mining and processing method specific costs including all appropriate overheads necessary to mine, process and sell the recoverable commodity; the projected long term price of gold and silver quoted in US$ and the exchange rate between the US$ and the RUB. For Ore Reserves the long term gold and silver price were set at US$450/oz and US$7.00/oz respectively. For Mineral resources the long term gold and silver price were set at US$550/oz and US$8.00/oz respectively;
- **Finalisation of the Modifying Factors:** The principal modifying factors include: dilution; diluting grades for gold and silver; extraction factors (mining losses); slope angles for the open-pits; and metallurgical recoveries for gold and silver. Table 5.1 through Table 5.5 inclusive gives the modifying factors for the Mining Assets;
- **Cut-off grade assessment:** The Company undertakes cut-off grade determination as a step process prior to determination of Ore Reserves. This is determined on an in-situ basis with separate cut-offs being determined for Mineral Resources and Ore Reserves and distinguishing for mining and processing methods accordingly.
  - For open-pit mines and projects the Company reports Ore Reserves based on material which is higher than the marginal cut-off grade. Furthermore the marginal cut-off grade assumes that marginal ore will only be processed when the average grade either separately or co-mingled with primary ore exceeds the operating cut-off grade. Accordingly the marginal cut-off grade excludes overhead costs and certain portions of the processing costs. The extent by which marginal ore contributes to the current Ore Reserves tonnage is: Dukat Mine (1.9%); Vorontsovskoye Mine (8.5%); Lunnoye Mine (5.5%); Arylakh Project (24.9%); Khakanjinskoye Mine (16.7%); and Yurievskoye Project (13.8%). In the majority of instances contribution to equivalent gold contained in the Ore Reserves is less than 5% (Arylakh Project excepted at 9.5%);
  - For underground mines and projects the Company reports Ore Reserves based on conventional operating cut-off grade assessments with no substantive consideration for marginal ore. Given the impact of development on the mining schedules the considerations for opportunities associated with stope grades lower than the operating cut-off grades are reviewed during the detailed short term planning process.

As the marginal cut-off grade approach is used for open-pit Ore Reserves, SRK notes that the cut-off grades for stockpiles will be similar to that proposed for the open-pit mines and projects. Table 5.6 through Table 5.11 inclusive gives the cut-off grade assessment for the Mining Assets.

- **Optimisation, LoMp design and scheduling:** Optimisation and LoMp design is undertaken using commercial software packages specifically developed for the mining industry with scheduling largely completed in the spreadsheet environment. Specifically, the Company ensures that optimisation of open-pit mines and projects for which Ore Reserves are reported is only driven by Measured and Indicated Mineral Resource categories. Specifically all Inferred Mineral Resource blocks are treated as waste; and

- **Ore Reserve declaration:** This is based on the final LoMp which in conjunction with the open-pit and underground designs, is used to derive Ore Reserves. Consequently only Measured and Indicated Mineral Resources which have been scheduled for processing within the LoMp are reported as Ore Reserves.

Table 5.1 Dukat Mine: modifying factors(1)

Mine Area	Dilution(1) (%)	Dilution(2) (%)	Diluting Grade		Extraction Ratio (%)	MRF	
			Au (g/t)	Ag (g/t)		(% Au)	(% Ag)
o/p 1	10.6%	11.8%	0.0	40.0	95.9%	79.4%	84.8%
o/p 3	23.6%	30.8%	0.0	40.0	89.1%	79.4%	84.8%
o/p 4	22.6%	29.2%	0.0	40.0	94.5%	79.4%	84.8%
o/p 5	23.7%	31.0%	0.0	40.0	94.9%	79.4%	84.8%
o/p 6	11.0%	12.4%	0.0	40.0	95.8%	79.4%	84.8%
u/g	20.3%	25.5%	0.1	50.0	84.6%	79.4%	84.8%

(1) o/p—open pit; and u/g—underground.

Table 5.2 Vorontsovskoye Mine: modifying factors(1)

Mine Area	Dilution(1) (%)	Dilution(2) (%)	Diluting Grade		Extraction Ratio (%)	MRF	
			Au (g/t)	Ag (g/t)		(% Au)	(% Ag)
o/p 1-oxide	12.7%	14.5%	0.3	0.9	95.3%	79.6%	34.5%
o/p 1-sulphide	7.7%	8.3%	0.3	0.3	95.3%	81.6%	46.2%
o/p 2-oxide	12.7%	14.5%	0.3	0.9	95.3%	79.6%	34.5%
o/p 2-sulphide	7.7%	8.3%	0.3	0.3	95.3%	81.6%	46.2%

(1) o/p—open pit; and u/g—underground.

Table 5.3 Lunnoye Mine and Arylakh Project: modifying factors(1)

Mine Area	Dilution(1) (%)	Dilution(2) (%)	Diluting Grade		Extraction Ratio (%)	MRF	
			Au (g/t)	Ag (g/t)		(% Au)	(% Ag)
o/p-Lunnoye	11.9%	13.5%	0.4	66.8	96.4%	93.8%	90.0%
o/p-Arylakh	30.7%	44.3%	0.2	130.7	96.0%	93.8%	90.0%
u/g-Lunnoye 9	22.7%	29.3%	0.7	124.7	92.6%	93.8%	90.0%
u/g-Lunnoye 7	46.0%	85.2%	0.0	35.3	92.9%	93.8%	90.0%

(1) o/p—open pit; and u/g—underground.

Table 5.4 Khakanjinskoye Mine and Yurievskoye Project: modifying factors(1)

Mine Area	Dilution(1) (%)	Dilution(2) (%)	Diluting Grade Au (g/t)	Diluting Grade Ag (g/t)	Extraction Ratio (%)	MRF (% Au)	MRF (% Ag)
o/p—KHK 1	18.0%	22.0%	0.8	31.2	98.0%	93.0%	50.9%
o/p—KHK 2	26.6%	36.2%	0.8	31.2	96.6%	93.0%	50.9%
o/p—KHK 3	13.5%	15.6%	0.8	31.2	95.7%	93.0%	50.9%
o/p—YVK 1	6.3%	6.7%	1.0	0.0	95.4%	93.0%	50.9%
u/g—KHK 1	40.0%	66.7%	0.8	31.2	75.0%	93.0%	50.9%
u/g—KHK 3	12.6%	14.4%	0.8	31.2	88.7%	93.0%	50.9%

(1) o/p—open pit; and u/g—underground.

Table 5.5 Albazino Project: modifying factors(1)

Mine Area	Dilution(1) (%)	Dilution(2) (%)	Diluting Grade Au (g/t)	Diluting Grade Ag (g/t)	Extraction Ratio (%)	MRF (% Au)	MRF (% Ag)
o/p	0.0%	0.0%	0.0	0.0	100.0%	75.2%	64.0%

(1) o/p—open pit.

Table 5.6 Dukat Mine: cut-off grades

Mine Area	Commodity Prices Gold Price (US$/oz)	Commodity Prices Silver Price (US$/oz)	In Situ—OCOG Au Eq (g/t)	In Situ—OCOG Ag Eq (g/t)	In Situ—MCOG Au Eq (g/t)	In Situ—MCOG Ag Eq (g/t)	Eq. Coefficient Ag to Au	Eq. Coefficient Au to Ag
Open-pit Statistics								
Open-pit Ore Reserves	450	7.00	3.4	210.8	1.6	99.9	0.01613	62.012
Open-pit Mineral Resources	550	8.00	2.8	183.5	1.3	86.9	0.01509	66.255
Underground Statistics								
Underground Ore Reserves	450	7.00	4.7	289.1	0.0	0.0	0.01616	61.876
Underground Mineral Resources .	550	8.00	3.8	250.8	0.0	0.0	0.01509	66.255

Table 5.7 Vorontsovskoye Mine: cut-off grades

Mine Area	Commodity Prices Gold Price (US$/oz)	Commodity Prices Silver Price (US$/oz)	In Situ—OCOG Au Eq (g/t)	In Situ—OCOG Ag Eq (g/t)	In Situ—MCOG Au Eq (g/t)	In Situ—MCOG Ag Eq (g/t)	Eq. Coefficient Ag to Au	Eq. Coefficient Au to Ag
Open-pit Statistics—Oxide								
Open-pit Ore Reserves	450	7.00	0.9	135.1	0.5	74.2	0.007	153.574
Open-pit Mineral Resources	550	8.00	0.7	116.6	0.4	64.1	0.006	163.996
Open-pit Statistics—Sulphide								
Open-pit Ore Reserves	450	7.00	1.2	140.5	0.9	105.9	0.009	117.320
Open-pit Mineral Resources	550	8.00	1.0	122.1	0.7	92.2	0.008	125.710

Table 5.8 Lunnoye Mine and Arylakh Project: cut-off grades

Mine Area	Commodity Prices: Gold Price (US$/oz)	Commodity Prices: Silver Price (US$/oz)	In Situ—OCOG: Au Eq (g/t)	In Situ—OCOG: Ag Eq (g/t)	In Situ—MCOG: Au Eq (g/t)	In Situ—MCOG: Ag Eq (g/t)	Eq. Coefficient: Ag to Au	Eq. Coefficient: Au to Ag
Open-pit Statistics—Lunnoye Mine								
Open-pit Ore Reserves	450	7.00	3.9	270.8	2.0	138.2	0.01448	69.068
Open-pit Mineral Resources	550	8.00	3.2	234.8	1.6	119.9	0.01355	73.794
Open-pit Statistics—Arylakh Project								
Open-pit Ore Reserves	450	7.00	4.8	328.2	2.7	183.2	0.01448	69.068
Open-pit Mineral Resources	550	8.00	12.1	839.8	2.1	156.0	0.01445	69.201
Underground Statistics—Lunnoye 9								
Underground Ore Reserves	450	7.00	5.4	371.7	0.0	0.0	0.01451	68.917
Underground Mineral Resources	550	8.00	4.3	317.5	0.0	0.0	0.01355	73.794
Underground Statistics—Lunnoye 7								
Underground Ore Reserves	450	7.00	9.6	664.1	0.0	0.0	0.01440	69.424
Underground Mineral Resources	550	8.00	7.8	576.3	0.0	0.0	0.01355	73.794
Underground Statistics—Lunnoye 6								
Underground Mineral Resources	550	8.00	6.7	495.4	0.0	0.0	0.01355	73.794
Underground Statistics—Lunnoye 5								
Underground Mineral Resources	550	8.00	5.0	368.6	0.0	0.0	0.01355	73.794

Table 5.9 Khakanjinskoye Mine and Yurievskoye Project: cut-off grades

Mine Area	Commodity Prices: Gold Price (US$/oz)	Commodity Prices: Silver Price (US$/oz)	In Situ—OCOG: Au Eq (g/t)	In Situ—OCOG: Ag Eq (g/t)	In Situ—MCOG: Au Eq (g/t)	In Situ—MCOG: Ag Eq (g/t)	Eq. Coefficient: Ag to Au	Eq. Coefficient: Au to Ag
Open-pit Statistics—KHK 1								
Open-pit Ore Reserves	450	7.00	3.1	392.1	1.7	207.9	0.00803	124.564
Open-pit Mineral Resources	550	8.00	2.5	337.6	1.3	179.2	0.00752	133.016
Open-pit Statistics—KHK 2								
Open-pit Ore Reserves	450	7.00	3.3	410.0	1.7	211.6	0.00803	124.564
Open-pit Mineral Resources	550	8.00	2.6	350.0	1.4	180.8	0.00752	133.016
Open-pit Statistics—KHK 3								
Underground Ore Reserves	450	7.00	3.0	241.5	1.5	126.0	0.01228	81.432
Underground Mineral Resources	550	8.00	2.4	208.5	1.3	108.8	0.01150	86.957
Open-pit Statistics—YVK 1								
Underground Ore Reserves	450	7.00	4.0	494.4	2.6	325.2	0.00803	124.564
Underground Mineral Resources	550	8.00	3.2	430.3	2.1	283.3	0.00752	133.016
Underground Statistics—KHK 1								
Underground Ore Reserves	450	7.00	4.7	580.4	0.0	0.0	0.00803	124.564
Underground Mineral Resources	550	8.00	3.8	501.4	0.0	0.0	0.00752	133.016
Underground Statistics—KHK 3								
Underground Ore Reserves	450	7.00	4.6	376.7	0.0	0.0	0.01228	81.432
Underground Mineral Resources	550	8.00	3.7	325.1	0.0	0.0	0.01150	86.957
Underground Statistics—YVK								
Underground Mineral Resources	550	8.00	3.8	501.4	0.0	0.0	0.00752	133.016

Table 5.10 presents the cut-off grades as determined by the Company for the Albazino Project. Notwithstanding these, the Company has reported its Mineral Resources using a cut-off grade of 2.0g/t gold equivalent. The approach highlighted in Table 5.10 is consistent with that used for the other Mining Assets and the overall impact of this on the Mineral Resources statement for the Albazino Project is discussed in Section 5.5 below.

Table 5.10 Albazino Project: cut-off grades

Mine Area	Commodity Prices: Gold Price (US$/oz)	Commodity Prices: Silver Price (US$/oz)	In Situ—OCOG: Au Eq (g/t)	In Situ—OCOG: Ag Eq (g/t)	In Situ—MCOG: Au Eq (g/t)	In Situ—MCOG: Ag Eq (g/t)	Eq. Coefficient: Ag to Au	Eq. Coefficient: Au to Ag
Open-pit Statistics—Albazino								
Open-pit Mineral Resources	550	8.00	2.6	220.8	1.5	128.4	0.01169	85.541

5.5 Mineral Resource and Ore Reserve Statements

The following tables present Mineral Resource and Ore Reserve statements for the Mining Assets. In all instances Mineral Resources and Ore Reserves are presented in accordance with the statements included in Section 5.2.

The Ore Reserves as reported are sensitive to changing operating costs and commodity prices. Where practically possible to do so, Ore Reserves at a range of commodity prices including that presented in the official statement are provided. These sensitivities are approximations only and accordingly at different commodity prices to that presented in the official statements alternative mining strategies may be pursued to exploit economic zones optimally. In turn, these may also affect the operating cost structures and cut-off grades owing to changes in scale of operation, thus reflecting the dynamic nature of the mining process. Further, the sensitivities as reported are inclusive of stockpile material and open-pits which are at an advanced stage of depletion. In all instances all sensitivity tables are monotonic decreasing, however in certain instances the influence of stockpiles and mature open-pits which are largely in-sensitive to price tend to mute the impact of commodity prices less than the current Ore Reserve prices.

SRK has also undertaken certain economic tests to ascertain the economic viability of the Ore Reserves which can be compared with commodity prices as at 1 October 2006 and the long term prices implied in the gold and silver prices used to derive the Ore Reserve statements. These include the historical cash costs for 2006$^{(H1+Q4)}$; the weighted average LoMp cash costs; the commodity prices which render a negative NPV at the base case discount factor of 10% real.

Table 5.11 through 5.26 inclusive presents the Mineral Resource and Ore Reserve statements and sensitivities for Dukat Mine, Vorontsovskoye Mine, Lunnoye Mine, Arylakh Project; Khakanjinskoye Mine; and Yurievskoye Project. Table 5.27 presents the Mineral resource statements for the Albazino Project and Tables 5.28 through Table 5.29 present the Mineral Resource and Ore Reserve statements and sensitivities for the Mining Assets (excluding Albazino Project). Table 5.30 presents the results of the Ore Reserves EVA.

5.5.1 Dukat

Table 5.11 Dukat Mine: Mineral Resource and Ore Reserve statement

Ore Reserve Category	Tonnage (kt)	Grade: Au (g/t)	Grade: Ag (g/t)	Grade: Au Eq (g/t)	Content: Au (koz)	Content: Ag (koz)	Content: Au Eq (koz)
Proved Ore Reserves							
—u/g(1) . . .	11,357	1.0	552.6	9.9	369	201,767	3,623
—o/p(1) . . .	1,422	1.4	625.5	11.5	64	28,592	525
Subtotal . . .	**12,779**	**1.1**	**560.7**	**10.1**	**433**	**230,359**	**4,148**
Probable Ore Reserves							
—u/g(1) . . .	5,480	1.2	512.7	9.5	210	90,329	1,666
—o/p(1) . . .	147	1.1	412.1	7.7	5	1,945	37
—s/p(1) . . .	200	0.5	301.2	5.4	4	1,937	35
Subtotal . . .	**5,827**	**1.2**	**502.9**	**9.3**	**218**	**94,211**	**1,738**
Total (2P) . . .	**18,606**	**1.1**	**542.6**	**9.8**	**651**	**324,570**	**5,885**

Mineral Resource Category	Tonnage (kt)	Grade: Au (g/t)	Grade: Ag (g/t)	Grade: Au Eq (g/t)	Content: Au (koz)	Content: Ag (koz)	Content: Au Eq (koz)
Measured Mineral Resources							
—u/g(1) . . .	12,065	1.2	653.7	11.7	466	253,582	4,548
—o/p(1) . . .	1,351	1.6	690.8	12.7	68	30,012	552
Subtotal . . .	**13,417**	**1.2**	**657.4**	**11.8**	**534**	**283,594**	**5,100**
Indicated Mineral Resource							
—u/g(1) . . .	5,837	1.4	591.0	10.9	254	110,905	2,040
—u/g(2)	52	1.1	449.4	8.3	2	755	14
—o/p(1) . . .	128	1.2	454.8	8.6	5	1,865	35
—s/p(1) . . .	200	0.5	301.2	5.4	4	1,937	35
Subtotal . . .	**6,217**	**1.3**	**577.7**	**10.6**	**265**	**115,463**	**2,124**
Total (M+I) .	**19,634**	**1.3**	**632.2**	**11.4**	**799**	**399,056**	**7,224**
Inferred Mineral Resources							
—u/g(2) . . .	16	1.0	437.5	8.1	1	229	4
Subtotal . . .	**16**	**1.0**	**437.5**	**8.1**	**1**	**229**	**4**
Total (3R) . .	**19,650**	**1.3**	**632.0**	**11.4**	**799**	**399,286**	**7,228**

Table 5.12 Dukat Mine: Ore Reserve sensitivity

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	12,944	1.4	677.1	12.3	569	281,781	5,113
360	5.60	15,789	1.2	602.6	10.9	616	305,915	5,549
450	7.00	18,606	1.1	542.6	9.8	651	324,570	5,885
540	8.40	20,352	1.0	510.7	9.3	671	334,175	6,060
630	9.80	22,035	1.0	483.1	8.8	687	342,235	6,206

5.5.2 Vorontsovskoye

Table 5.13 Vorontsovskoye Mine: Mineral Resource and Ore Reserve statement

	Ore Reserve Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—o/p(1)	17,834	3.1	4.1	3.1	1,754	2,343	1,772
Subtotal	**17,834**	**3.1**	**4.1**	**3.1**	**1,754**	**2,343**	**1,772**
Probable Ore Reserves							
—o/p(1)	1,115	2.2	3.6	2.3	78	130	81
—s/p(1)	3,007	1.4	1.9	1.4	136	186	137
Subtotal	**4,123**	**1.6**	**2.4**	**1.6**	**215**	**316**	**218**
Total (2P)	**21,956**	**2.8**	**3.8**	**2.8**	**1,968**	**2,659**	**1,990**

	Mineral Resource Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—o/p(1)	19,465	3.1	4.4	3.1	1,939	2,741	1,960
Subtotal	**19,465**	**3.1**	**4.4**	**3.1**	**1,939**	**2,741**	**1,960**
Indicated Mineral Resource							
—o/p(1)	1,524	2.5	4.2	2.6	125	204	126
—s/p(1)	3,007	1.4	1.9	1.4	136	186	137
Subtotal	**4,532**	**1.8**	**2.7**	**1.8**	**261**	**389**	**263**
Total (M+I)	**23,996**	**2.9**	**4.1**	**2.9**	**2,200**	**3,131**	**2,223**
Inferred Mineral Resources							
—o/p(2)	64	2.5	3.4	2.6	5	7	5
Subtotal	**64**	**2.5**	**3.4**	**2.6**	**5**	**7**	**5**
Total (3R)	**24,060**	**2.9**	**4.1**	**2.9**	**2,206**	**3,138**	**2,229**

Table 5.14 Vorontsovskoye Mine: Ore Reserve sensitivity

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	14,701	3.3	3.7	3.3	1,545	1,753	1,556
360	5.60	20,438	2.9	3.8	2.9	1,886	2,465	1,902
450	7.00	21,956	2.8	3.8	2.8	1,968	2,659	1,990
540	8.40	23,955	2.7	3.7	2.7	2,050	2,872	2,068
630	9.80	25,074	2.6	3.7	2.6	2,088	2,960	2,107

5.5.3 Lunnoye

Table 5.15 Lunnoye: Mineral Resource and Ore Reserve statement

	Ore Reserve Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—u/g[1] . . .	219	2.2	316.8	6.8	15	2,231	48
—o/p[1] . . .	1,476	1.3	433.8	7.6	64	20,590	362
Subtotal . . .	**1,696**	**1.5**	**418.7**	**7.5**	**79**	**22,822**	**410**
Probable Ore Reserves							
—u/g[1] . . .	2,104	1.7	357.8	6.8	112	24,212	462
—o/p[1] . . .	589	0.5	518.8	8.0	9	9,822	151
—s/p[1] . . .	173	1.4	132.4	8.8	8	738	49
Subtotal . . .	**2,867**	**1.4**	**377.3**	**7.2**	**129**	**34,772**	**663**
Total (2P) . . .	**4,562**	**1.4**	**392.6**	**7.3**	**208**	**57,594**	**1,072**

	Mineral Resource Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—u/g[1] . . .	280	3.0	429.5	8.8	27	3,873	79
—u/g[2] . . .	88	1.4	415.4	7.0	4	1,179	20
—o/p[1] . . .	1,232	1.7	529.7	8.9	67	20,986	351
Subtotal . . .	**1,601**	**1.9**	**505.8**	**8.8**	**97**	**26,038**	**450**
Indicated Mineral Resource							
—u/g[1] . . .	1,538	2.5	519.4	9.5	122	25,677	470
—u/g[2] . . .	396	0.7	442.7	6.7	9	5,631	86
—o/p[1] . . .	475	0.6	674.0	9.7	9	10,299	149
—o/p[2] . . .	184	0.4	474.1	6.8	2	2,800	40
—s/p[1] . . .	173	1.4	132.4	8.8	8	738	49
Subtotal . . .	**2,766**	**1.7**	**507.7**	**8.9**	**151**	**45,146**	**793**
Total (M+I)	**4,367**	**1.8**	**507.0**	**8.9**	**248**	**71,184**	**1,244**
Inferred Mineral Resources							
—u/g[1] . . .	0	0.0	0.0	0.0	0	0	0
—u/g[2] . . .	822	1.1	557.6	8.6	28	14,729	227
—o/p[2] . . .	2	0.3	359.4	5.2	0	24	0
Subtotal . . .	**824**	**1.1**	**557.1**	**8.6**	**28**	**14,753**	**228**
Total (3R) . .	**5,190**	**1.7**	**515.0**	**8.8**	**276**	**85,936**	**1,472**

Table 5.16 Lunnoye: Ore Reserve sensitivity

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	2,674	1.8	462.9	8.9	158	39,799	765
360	5.60	3,879	1.5	415.3	7.8	192	51,798	973
450	7.00	4,562	1.4	392.6	7.3	208	57,594	1,072
540	8.40	5,085	1.3	370.0	6.9	217	60,479	1,123
630	9.80	5,478	1.3	356.4	6.6	222	62,776	1,162

Table 5.17 Lunnoye Mine: Mineral Resource and Ore Reserve statement

	Ore Reserve Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—u/g[1] . . .	219	2.2	316.8	6.8	15	2,231	48
—o/p[1] . . .	405	2.5	402.1	8.3	32	5,240	108
Subtotal . . .	**624**	**2.4**	**372.2**	**7.8**	**48**	**7,471**	**156**
Probable Ore Reserves							
—u/g[1] . . .	2,104	1.7	357.8	6.8	112	24,212	462
—s/p[1] . . .	173	1.4	132.4	8.8	8	738	49
Subtotal . . .	**2,278**	**1.6**	**340.7**	**7.0**	**120**	**24,950**	**511**
Total (2P) . . .	**2,902**	**1.8**	**347.4**	**7.1**	**167**	**32,421**	**667**

	Mineral Resource Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—u/g[1] . . .	280	3.0	429.5	8.8	27	3,873	79
—o/p[1] . . .	396	2.7	437.8	8.6	34	5,577	110
Subtotal . . .	**677**	**2.8**	**434.3**	**8.7**	**61**	**9,449**	**189**
Indicated Mineral Resource							
—u/g[1] . . .	1,538	2.5	519.4	9.5	122	25,677	470
—u/g[2] . . .	104	0.2	417.2	5.9	1	1,398	20
—o/p[2] . . .	184	0.4	474.1	6.8	2	2,800	40
—s/p[1] . . .	173	1.4	132.4	8.8	8	738	49
Subtotal . . .	**1,999**	**2.1**	**476.3**	**9.0**	**133**	**30,613**	**579**
Total (M+I) .	**2,676**	**2.3**	**465.7**	**8.9**	**194**	**40,063**	**768**
Inferred Mineral Resources							
—u/g[2] . . .	739	1.0	563.3	8.7	24	13,388	206
—o/p[2] . . .	2	0.3	359.4	5.2	0	24	0
Subtotal . . .	**741**	**1.0**	**562.7**	**8.6**	**24**	**13,412**	**206**
Total (3R) . .	**3,417**	**2.0**	**486.8**	**8.9**	**218**	**53,474**	**974**

Table 5.18 Lunnoye Mine: Ore Reserve sensitivity

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	2,125	2.1	404.7	8.4	143	27,647	574
360	5.60	2,636	1.9	365.8	7.5	160	30,997	640
450	7.00	2,902	1.8	347.4	7.1	167	32,421	667
540	8.40	3,146	1.7	330.5	6.8	173	33,428	688
630	9.80	3,256	1.7	323.5	6.7	176	33,857	697

Table 5.19 Arylakh Project: Mineral Resource and Ore Reserve statement

	Ore Reserve Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—o/p[1] . . .	1,071	0.9	445.8	7.4	31	15,351	254
Subtotal . . .	**1,071**	**0.9**	**445.8**	**7.4**	**31**	**15,351**	**254**
Probable Ore Reserves							
—o/p[1] . . .	589	0.5	518.8	8.0	9	9,822	151
Subtotal . . .	**589**	**0.5**	**518.8**	**8.0**	**9**	**9,822**	**151**
Total (2P) . . .	**1,660**	**0.8**	**471.7**	**7.6**	**41**	**25,173**	**405**

	Mineral Resource Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—u/g[2] . . .	88	1.4	415.4	7.0	4	1,179	20
—o/p[1] . . .	836	1.2	573.2	9.0	33	15,409	241
Subtotal . . .	**924**	**1.2**	**558.1**	**8.8**	**37**	**16,588**	**261**
Indicated Mineral Resource							
—u/g[2] . . .	291	0.9	451.8	7.0	9	4,234	66
—o/p[1] . . .	475	0.6	674.0	9.7	9	10,299	149
Subtotal . . .	**767**	**0.7**	**589.5**	**8.7**	**18**	**14,533**	**215**
Total (M+I) .	**1,691**	**1.0**	**572.4**	**8.8**	**54**	**31,121**	**476**
Inferred Mineral Resources							
—u/g[2] . . .	82	1.4	506.5	8.2	4	1,341	22
Subtotal . . .	**82**	**1.4**	**506.5**	**8.2**	**4**	**1,341**	**22**
Total (3R) . .	**1,773**	**1.0**	**569.3**	**8.7**	**58**	**32,462**	**498**

Table 5.20 Arylakh Project: Ore Reserve sensitivity

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	550	0.8	687.6	10.8	15	12,152	191
360	5.60	1,243	0.8	520.3	8.3	32	20,801	333
450	7.00	1,660	0.8	471.7	7.6	41	25,173	405
540	8.40	1,939	0.7	434.0	7.0	43	27,051	435
630	9.80	2,223	0.7	404.7	6.5	47	28,919	465

5.5.4 Khakanjinskoye

Table 5.21 Khakanjinskoye: Mineral Resource and Ore Reserve statement

Ore Reserve Category							
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—u/g[1]	214	5.9	315.2	8.8	40	2,167	60
—o/p[1]	3,881	5.9	223.9	8.2	738	27,934	1,020
Subtotal	**4,095**	**5.9**	**228.7**	**8.2**	**778**	**30,102**	**1,080**
Probable Ore Reserves							
—u/g[1]	579	4.5	216.9	6.2	84	4,033	116
—o/p[1]	232	4.9	258.0	7.5	36	1,926	56
—s/p[1]	507	4.4	128.3	5.4	71	2,092	88
Subtotal	**1,318**	**4.5**	**190.0**	**6.1**	**191**	**8,052**	**260**
Total (2P)	**5,412**	**5.6**	**219.3**	**7.7**	**969**	**38,153**	**1,340**

Mineral Resource Category							
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—u/g[1]	297	6.4	361.5	9.7	62	3,457	93
—u/g[2]	25	6.5	36.5	6.8	5	29	5
—o/p[1]	3,609	6.9	244.7	9.2	795	28,399	1,066
Subtotal	3,931	6.8	252.3	9.2	862	31,885	1,164
Indicated Mineral Resource							
—u/g[1]	417	6.9	338.6	9.4	92	4,540	126
—u/g[2]	63	7.2	18.4	7.4	15	37	15
—o/p[1]	275	6.3	229.6	8.5	56	2,031	75
—s/p[1]	507	4.4	128.3	5.4	71	2,092	88
Subtotal	**1,262**	**5.8**	**214.5**	**7.5**	**234**	**8,700**	**304**
Total (M+I)	**5,193**	**6.6**	**243.1**	**8.8**	**1,095**	**40,584**	**1,468**
Inferred Mineral Resources							
—u/g[2]	71	8.4	166.7	9.6	19	378	22
—o/p[2]	32	4.8	265.4	7.2	5	275	7
Subtotal	**103**	**7.2**	**197.6**	**8.9**	**24**	**653**	**29**
Total (3R)	**5,296**	**6.6**	**242.2**	**8.8**	**1,119**	**41,238**	**1,497**

Table 5.22 Khakanjinskoye: Ore Reserve sensitivity

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	3,216	7.2	288.8	10.0	741	29,858	1,034
360	5.60	4,258	6.2	246.7	8.6	846	33,776	1,173
450	7.00	5,521	5.6	215.1	7.7	991	38,186	1,362
540	8.40	5,363	5.5	212.5	7.5	942	36,640	1,295
630	9.80	5,639	5.3	205.6	7.3	958	37,280	1,317

Table 5.23 Khakanjinskoye Mine: Mineral Resource and Ore Reserve statement

Ore Reserve Category							
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—u/g[1]	214	5.9	315.2	8.8	40	2,167	60
—o/p[1]	3,499	5.1	247.1	7.6	573	27,794	855
Subtotal	**3,713**	**5.1**	**251.0**	**7.7**	**614**	**29,962**	**915**
Probable Ore Reserves							
—u/g[1]	579	4.5	216.9	6.2	84	4,033	116
—o/p[1]	228	4.8	262.4	7.5	35	1,925	55
—s/p[1]	507	4.4	128.3	5.4	71	2,092	88
Subtotal	**1,314**	**4.5**	**190.6**	**6.1**	**190**	**8,051**	**259**
Total (2P)	**5,027**	**5.0**	**235.2**	**7.3**	**804**	**38,013**	**1,174**

Mineral Resource Category							
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—u/g[1]	297	6.4	361.5	9.7	62	3,457	93
—u/g[2]	3	5.9	219.0	7.5	1	22	1
—o/p[1]	3,046	5.9	287.8	8.6	578	28,181	847
Subtotal	**3,347**	**5.9**	**294.3**	**8.7**	**640**	**31,661**	**940**
Indicated Mineral Resource							
—u/g[1]	417	6.9	338.6	9.4	92	4,540	126
—u/g[2]	7	5.4	95.9	6.2	1	22	1
—o/p[1]	200	5.6	310.4	8.6	36	2,000	55
—s/p[1]	507	4.4	128.3	5.4	71	2,092	88
Subtotal	**1,132**	**5.5**	**237.8**	**7.4**	**201**	**8,654**	**271**
Total (M+I)	**4,478**	**5.8**	**280.0**	**8.4**	**841**	**40,315**	**1,211**
Inferred Mineral Resources							
—u/g[2]	45	5.2	253.7	7.1	8	367	10
—o/p[2]	32	4.8	265.4	7.2	5	275	7
Subtotal	**77**	**5.0**	**258.7**	**7.1**	**12**	**642**	**18**
Total (3R)	**4,556**	**5.8**	**279.6**	**8.4**	**853**	**40,957**	**1,229**

Table 5.24 Khakanjinskoye Mine: Ore Reserve sensitivity

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	2,955	6.3	313.2	9.4	603	29,755	895
360	5.60	3,873	5.5	270.1	8.1	680	33,635	1,007
450	7.00	5,027	5.0	235.2	7.3	804	38,013	1,174
540	8.40	4,804	4.8	236.0	7.1	742	36,449	1,094
630	9.80	5,051	4.6	228.4	6.8	754	37,083	1,112

Table 5.25 Yurievskoye Project: Mineral Resource and Ore Reserve statement

	Ore Reserve Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—o/p(1) . . .	381	13.4	11.4	13.5	164	140	165
Subtotal . . .	**381**	**13.4**	**11.4**	**13.5**	**164**	**140**	**165**
Probable Ore Reserves							
—o/p(1) . . .	4	8.3	8.6	8.3	1	1	1
Subtotal . . .	**4**	**8.3**	**8.6**	**8.3**	**1**	**1**	**1**
Total (2P) . . .	**385**	**13.3**	**11.4**	**13.4**	**165**	**141**	**166**

	Mineral Resource Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—u/g(2) . . .	21	6.6	9.3	6.7	5	6	5
—o/p(1) . . .	563	12.0	12.0	12.1	217	217	219
Subtotal . . .	584	11.8	11.9	11.9	222	224	223
Indicated Mineral Resource							
—u/g(2) . . .	55	7.5	8.3	7.5	13	15	13
—o/p(1) . . .	75	8.1	12.9	8.2	20	31	20
Subtotal . . .	**130**	**7.9**	**10.9**	**7.9**	**33**	**46**	**33**
Total (M+I) .	**714**	**11.1**	**11.7**	**11.2**	**255**	**269**	**257**
Inferred Mineral Resources							
—u/g(2) . . .	26	14.0	14.0	14.1	12	12	12
—o/p(2) . . .	0	10.3	35.7	10.6	0	0	0
Subtotal . . .	**26**	**13.9**	**14.0**	**14.1**	**12**	**12**	**12**
Total (3R) . .	**740**	**11.2**	**11.8**	**11.3**	**266**	**281**	**268**

Table 5.26 Yurievskoye Project: Ore Reserve sensitivity

Commodity Prices		Ore Reserve Sensitivity						
			Grade			Content		
Gold (US$/oz)	Silver (US$/oz)	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
270	4.20	261	16.5	12.3	16.6	138	103	139
360	5.60	385	13.3	11.4	13.4	165	141	166
450	7.00	494	11.7	10.9	11.8	187	173	188
540	8.40	559	11.1	10.7	11.2	200	192	201
630	9.80	588	10.8	10.4	10.9	204	197	205

At Yurievskoye Project the reported Ore reserves more closely match the optimised shell for the commodity prices as defined by the -20% sensitivity: US$360/oz for gold and US$5.60/oz for silver. Consequently the Ore Reserve statement for Yurievskoye Project does not match the stated Ore Reserve price sensitivity which similarly impacts statements for the total Mining Assets.

5.5.5 Albazino

Table 5.27 Albazino Project: Mineral Resource and Ore Reserve statement

	Ore Reserve Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Proved Ore Reserves							
—o/p(1) . . .	0	0.0	0.0	0.0	0	0	0
Subtotal . . .	**0**	**0.0**	**0.0**	**0.0**	**0**	**0**	**0**
Probable Ore Reserves							
—o/p(1) . . .	0	0.0	0.0	0.0	0	0	0
Subtotal . . .	**0**	**0.0**	**0.0**	**0.0**	**0**	**0**	**0**
Total (2P) . . .	**0**	**0.0**	**0.0**	**0.0**	**0**	**0**	**0**

	Mineral Resource Category						
		Grade			Content		
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au Eq (g/t)	Au (koz)	Ag (koz)	Au Eq (koz)
Measured Mineral Resources							
—o/p(1) . . .	0	0.0	0.0	0.0	0	0	0
—o/p(2) . . .	0	0.0	0.0	0.0	0	0	0
Subtotal . . .	**0**	**0.0**	**0.0**	**0.0**	**0**	**0**	**0**
Indicated Mineral Resource							
—o/p(1) . . .	0	0.0	0.0	0.0	0	0	0
—o/p(2) . . .	4,300	5.6	0.0	5.6	769	0	769
Subtotal . . .	**4,300**	**5.6**	**0.0**	**5.6**	**769**	**0**	**769**
Total (M+I) .	**4,300**	**5.6**	**0.0**	**5.6**	**769**	**0**	**769**
Inferred Mineral Resources							
—o/p(1) . . .	0	0.0	0.0	0.0	0	0	0
—o/p(2) . . .	2,305	4.4	0.0	4.4	329	0	329
Subtotal . . .	**2,305**	**4.4**	**0.0**	**4.4**	**329**	**0**	**329**
Total (3R) . .	**6,605**	**5.2**	**0.0**	**5.2**	**1,098**	**0**	**1,098**

The current approach used to derive the Mineral Resource statement for the Albazino Project is different to that employed at the other Mining Assets, specifically:

- All material which has an equivalent gold grade higher than 2g/t is included in the Mineral Resource statement; and
- No distinction is made between that material which is potentially economically mineable by open-pit and underground methods.

Notwithstanding the above, SRK notes that the cut-off grade used at 2g/t Au is higher than the marginal cut-off grade (1.5g/t) calculated given the commodity prices (US$550/oz; US$8.00/oz) used for defining Mineral Resources in this MER. Should a similar approach be used to that for the other Mining Assets, SRK notes the following:

- Mineral Resources which are potentially economically mineable by open-pit methods would comprise: 3.9Mt of Indicated Mineral Resources grading 5.6g/t Au and 0.9Mt of Inferred Mineral Resources grading 4.3g/t Au;
- Mineral Resources which are potentially economically mineable by underground methods would comprise: 0.2Mt of Indicated Mineral Resources grading 6.6g/t Au and 0.6Mt of Inferred Mineral Resources grading 6.8g/t Au; and
- Given the preliminary optimisation assessment undertaken by the Company, which indicates that some 75% of the currently stated Mineral Resources would be amenable to open-pit mining and only a portion of the remainder would be amenable to underground mining methods. 80% of the 75% would report to the Measured and Indicated Mineral Resource categories.

5.5.6 Mining Assets

Table 5.28 Mining Assets: Mineral Resource and Ore Reserve statement[1]

Ore Reserve Category	Tonnage (kt)	Grade: Au (g/t)	Grade: Ag (g/t)	Grade: Au Eq (g/t)	Content: Au (koz)	Content: Ag (koz)	Content: Au Eq (koz)
Proved Ore Reserves							
—u/g[1]	11,790	1.1	543.9	9.8	424	206,166	3,730
—o/p[1]	24,612	3.3	100.4	4.6	2,619	79,460	3,679
Subtotal	**36,402**	**2.6**	**244.0**	**6.3**	**3,044**	**285,626**	**7,409**
Probable Ore Reserves							
—u/g[1]	8,163	1.5	451.8	8.6	405	118,574	2,245
—o/p[1]	2,083	1.9	206.4	4.9	129	13,824	325
—s/p[1]	3,888	1.8	39.6	2.5	219	4,953	309
Subtotal	**14,134**	**1.7**	**302.2**	**6.3**	**753**	**137,351**	**2,879**
Total (2P)	**50,537**	**2.3**	**260.3**	**6.3**	**3,797**	**422,977**	**10,288**

Mineral Resource Category	Tonnage (kt)	Grade: Au (g/t)	Grade: Ag (g/t)	Grade: Au Eq (g/t)	Content: Au (koz)	Content: Ag (koz)	Content: Au Eq (koz)
Measured Mineral Resources							
—u/g[1]	12,643	1.4	641.9	11.6	554	260,912	4,720
—u/g[2]	113	2.5	332.9	7.0	9	1,208	25
—o/p[1]	25,658	3.5	99.6	4.8	2,870	82,138	3,928
Subtotal	**38,414**	**2.8**	**278.7**	**7.0**	**3,433**	**344,257**	**8,674**
Indicated Mineral Resource							
—u/g[1]	7,792	1.9	563.3	10.5	468	141,122	2,636
—u/g[2]	511	1.6	391.4	7.0	26	6,424	115
—o/p[1]	2,402	2.5	186.4	5.0	195	14,399	385
—o/p[2]	184	0.4	474.1	6.8	2	2,800	40
—s/p[1]	3,888	1.8	39.6	2.5	219	4,953	309
Subtotal	**14,776**	**1.9**	**357.2**	**7.3**	**910**	**169,698**	**3,485**
Total (M+I)	**53,190**	**2.5**	**300.5**	**7.1**	**4,343**	**513,955**	**12,159**
Inferred Mineral Resources							
—u/g[2]	908	1.6	525.1	8.7	47	15,337	254
—o/p[2]	98	3.2	96.7	4.1	10	306	13
Subtotal	**1,007**	**1.8**	**483.2**	**8.2**	**58**	**15,642**	**267**
Total (3R)	**54,197**	**2.5**	**303.9**	**7.1**	**4,400**	**529,598**	**12,425**

(1) Excluding Albazino Project.

Table 5.29 Mining Assets: Ore Reserve Sensitivity[1]

Commodity Prices: Gold (US$/oz)	Commodity Prices: Silver (US$/oz)	Ore Reserve Sensitivity: Tonnage (kt)	Grade: Au (g/t)	Grade: Ag (g/t)	Grade: Au Eq (g/t)	Content: Au (koz)	Content: Ag (koz)	Content: Au Eq (koz)
270	4.20	33,535	2.8	327.6	7.9	3,014	353,191	8,468
360	5.60	44,364	2.5	276.2	6.7	3,540	393,953	9,597
450	7.00	50,646	2.3	259.8	6.3	3,818	423,009	10,309
540	8.40	54,754	2.2	246.6	6.0	3,879	434,166	10,546
630	9.80	58,226	2.1	237.8	5.8	3,955	445,251	10,792

(1) Excluding Albazino Project.

Table 5.30 Mining Assets: Ore Reserve economic viability assessment[1]

Mining Asset	Cash Costs: LoMp (US$/oz Eq Au)	Cash Costs: YTD Q3 2006 (US$/oz Eq Au)	+ NPV: Gold Price (US$/oz)	+ NPV: Silver Price (US$/oz)
Dukat Mine	241	333	254	3.95
Vorontsovskoye Mine	244	381	250	3.88
Lunnoye + Arylakh Project	182	67	233	3.62
Khakanjinskoye Mine + Yurievskoye Project	232	192	240	3.73
Company	233	290	263	4.09

(1) The current (YTD Q3 2006) cash costs for Lunnoye is significantly impacted by the toll treatment revenues received from Dukat which is based on the spot commodity prices. The cash costs for Dukat in this period are similarly affected.

5.6 Ore Reserve Potential

Notwithstanding the potential for defining additional Mineral Resources, the Ore Reserve Potential at the Mining Assets are largely impacted by:

- Changes in the Company's view of the long term commodity price, specifically should this increase beyond the current US$450/oz for gold and US$7.00/oz for silver. An indication of this may be assessed by reference to the sensitivity tables as reported herein, specifically for the Ore Reserves associated with the open pit mines and projects. This positive impact is however less where underground mining is planned as extensions/limitations to current/proposed open-pit mining;
- Completion of further technical studies for the projects upon which no studies comprising a multi-disciplinary technical assessment undertaken to a minimum of pre-feasibility study level has been completed, specifically Albazino Project.

Notwithstanding the above, SRK notes that certain risks may also counter any upwards price movement. These risks generally relate to the reliance of the current Ore Reserves on future improvements in performance which may result from planned improvements or reversal of current non-achievement. Assuming that current performance is reflective of future performance then the impact on Ore Reserves will only be negative at prices below US$400/oz where cashflows may become negative and/or should the Company decide to revisit its LoMp, specifically re-optimisation. In respect of the latter, SRK notes that the most significant impact will be at Vorontsovskoye Mine where the Ore Reserves may be reduced by up to 33%.

6 MINING ENGINEERING

6.1 Introduction

The following section includes discussion and comment on the mining engineering related aspects of the LoMp associated with the Mining Assets. Specifically, comment is given on the mine planning process, mining methods, geotechnics, mine ventilation, and mining statistics reflected in the historical performance and the LoMp.

The operating expenditures as included in the following sections are related only to that classified as mining related expenditures. To arrive at the total cost per tonne mined, the reader is referred to the unit costs included in Section 6.0 for Metallurgical Processing and Section 8.0 for overheads in addition to the revenue related costs in Section 13.0.

6.2 Mine Planning

The mine planning process at the Mining Assets is largely housed within specialised computerised software which follows directly on from the mineral resource estimation process which is also undertaken within the same software. Notwithstanding this statement, the degree of design work and subsequent scheduling undertaken for the open-pit operations is more detailed than that currently undertaken for the underground operations.

The planning process is largely centralised at the Company's head office with appropriate input from on-site management. The LoMp process commences once addition/revision and depletion sign-off of the Mineral Resources is secured. This Mineral Resource together with the existing infrastructure and excavations forms the basis for subsequent design, planning and extraction sequencing incorporated into the LoMp. This process is completed using a combination of geological modelling, mine planning and production scheduling using commercial software packages specifically developed for the mining industry. In general the process incorporates the following:

- Long-term strategic targets, objectives and guidelines as defined at the corporate level, specifically commodity prices and exchange rates. In this instance the following applies: gold at US$450/oz, silver at US$7.00/oz and an exchange rate of 27.0 RUB to one US$;
- Short-term to medium term production objectives, specifically production rates as defined at the corporate level;
- Derivation of modifying factors (dilution, diluting grades, extraction ratios and metallurgical recoveries) and operating cost inputs for determination of cut-off grades. In respect of the operating mines these are drawn from a review of historical performance with appropriate modification for anticipated future operating conditions;

- Mine design, production planning and scheduling of production, waste stripping, development and equipment requirements on an annual basis with the initial years scheduled on a monthly/quarterly basis; and
- Development of the accompanying capital expenditure requirements and operating expenditure profiles on an annual basis.

In respect of the open-pit operations the process incorporates the following key steps:

- **Optimisation analysis** which defines economic 'shells' for a range of commodity prices and other limiting factors, specifically slope angles and pre-existing underground and surface infrastructure. The lower price ranges up to the long term reserve price guides the mining sequence for open-pit expansions. The higher price ranges are used to define the 'open-pittable mineral resources which are potentially economically mineable' and to report sensitivity analyses;
- **Pit design** which follows the choice of the 'ultimate pit shell' as derived from the optimisation analysis. The pit design process includes the generation of engineered slope designs which incorporate haul-road access, benches and berms, pushback and cognisance of existing and future infrastructure, waste dumps and stockpiles; and
- **Production scheduling** which is largely undertaken by exporting of physical statistics from the pit design increments into the spreadsheet environment where scheduling of physical statistics on an annual basis is undertaken.

In a number of the open-pits, SRK notes that the conversion efficiencies: the comparison between optimisation volumes and final pit design volumes: exceeds the normally acceptable range of $\pm 10\%$. This normally results from the non-softening of overall pit slopes to accommodate anticipated haul roads and or practical considerations for 'mountain-side' pits. In summary the net impact is to render the LoMp less optimal with respect to stripping ratios and accordingly represents an opportunity to improve the conversion efficiency.

In respect of the existing underground operations, specifically Dukat, the degree of detailed design and production scheduling is only undertaken for the first three years. Thereafter the broad economic zones have been delineated and their scheduling is largely driven by the long-term access development and location of primary underground infrastructure. In respect of those underground operations which are not yet in production, the design work is largely based on identifying economic limits on a vertical longitudinal projection ("VLP") basis within the computerised environment and targeting development layouts accordingly. Notwithstanding the above process, SRK notes that with respect to the underground operations that design, planning and production scheduling is more manual and less comprehensive than for the open-pits. SRK consider that the underground planning could be improved by increased utilisation of computerised software particularly for the stoping and development design and scheduling aspects. This would then assist in the improvement of real-time scheduling and production that is sourced from different orebodies and mining methods.

Similar criticism applies, albeit to a lesser degree to the production scheduling aspects of certain of the open-pits. In this instance, SRK considers that the process could be improved by incorporating the real-time scheduling capability noted above.

The tonnage contribution from underground mining is planned to increase from the current 18% (2006$^{(H1+Q3)}$) to 31% from 2011. SRK consider it important that a more detailed level of planning and scheduling is developed for the underground operations comparable to that of the open-pits.

6.3 Dukat

Mining operations at Dukat Mine comprise underground, five separate open-pits and stockpile reclamation. Underground mining operations are planned to continue for 20.25 years until 2026 and open-pit operations are planned to continue for 5 years until 2011.

Current (2006 YTD) production rates for the open-pit and underground operations are 36ktpm and 39ktpm respectively and overall production is planned to increase to 79ktpm (950ktpa) in 2008. As the open-pit production falls away underground mining production rates are planned to increase to 46ktpm in 2007 which is sustained until 2010, thereafter increasing to 79ktpm in 2012.

6.3.1 Mining Method, Equipment and Access

Open-pit mining at Dukat Mine comprises a conventional truck and shovel operation. A combination of hydraulic excavators and wheel loaders are currently used to load ore and waste from the mining face into off-highway trucks. The trucks are standard Russian equipment, whilst the hydraulic excavators, wheel loaders and bulldozers are purchased from international manufacturers. Two Ingersoll-Rand production rigs are used for drilling.

The overall pit slopes vary from 45° to 50° depending on the pit geometry (specifically depth), mountain topography and geotechnical conditions.

Ore in the open-pits is selectively mined to different grade categories and all RoM ore is stockpiled and blended using a wheel loader to the primary crusher before being transported by road to the Dukat Plant located at Omsukchan some 40km distant from Dukat Mine. A number of contractors are responsible for transporting the ore to the Dukat Plant using standard off-highway trucks.

The underground mining operation is fully mechanised and employs two specific mining methods depending on the thickness and dip of the orebodies. Currently underground mining is focused on Ore Zones No.15 and No.16 where the ore zones are, in the main, relatively thick and steep dipping at some 75°, which enables more productive non-entry mining methods (sub-level open stoping) to be employed using long-hole drilling methods. In the thinner ore zones up to 3.5m thick a shrinkage stoping method is used. The current orebodies which form the basis of the Ore Reserves extend to a depth of 600m below surface. Notwithstanding the above, the contribution from the thinner zones will increase during the LoMp. Accordingly focus on advanced development will be critical in order to achieve both the build up in production and increased contribution from shrinkage stoping mining methods.

A crown pillar is planned to be left beneath the lowest bench of the open-pit to protect the underground workings where future mining is planned. Pillars are left on dip and at the crowns for regional support although the majority of pillars are planned to be recovered once mining on the specific level is complete. Typical stope dimensions are 50m by 50m on strike and height. The underground operation is fully mechanised and accessed through adits to surface principally on the 860m and 980m levels. In 2005 the Company commenced the development of a 3km long adit on the 860m level which will be used to provide rail haulage of all ore from the different underground sections to the main crusher. A further 1,000m of opening up is required as well as the installation of ore passes. Two electric locomotives are planned to be used with a capacity of up to 950ktpa. This is planned to be operational in Q4 2007.

The underground mining operation is fully mechanised and load, haul and dump trucks (“LHDs”) and low profile dump trucks are used to transport ore to the surface. Rubber tyred long-hole production drill rigs are employed for open stoping and development jumbos are used for work on tunnels and excavations.

The mine works as a continuous operation, utilising two 11-hour shift patterns in the open-pit and three 7-hour shift patterns in the underground operation. The open-pit production schedule incorporates an allowance of 40 days in which it is not considered possible to work due to temperatures falling below -45°C.

6.3.2 Historical mining operating statistics

Table 6.1 presents the historical mining operating statistics for Dukat Mine.

Table 6.1 Dukat Mine: historical mining operating statistics

Statistics	Units	2003	2004	2005	2006$^{(H1+Q3)}$
Tonnage	**(kt)**	**603**	**840**	**844**	**676**
—o/p	(kt)	379	448	383	323
—u/g	(kt)	224	392	462	353
Gold Grade	**(g/t Au)**	**1.5**	**1.4**	**1.3**	**1.1**
—o/p	(g/t Au)	1.1	1.3	1.1	0.7
—u/g	(g/t Au)	2.2	1.4	1.4	1.4
Silver Grade	**(g/t Ag)**	**739.3**	**599.9**	**600.2**	**538.8**
—o/p	(g/t Ag)	483.3	487.6	454.0	283.7
—u/g	(g/t Ag)	1,172.7	728.4	721.4	772.2
Waste Mined o/p	**(kt)**	**1,969**	**3,193**	**2,275**	**1,622**
Stripping Ratio	**(t_{waste}:t_{ore})**	**5.2**	**7.1**	**5.9**	**5.0**
Development	**(m)**	**1,847**	**3,046**	**6,413**	**5,341**
—Capital	(m)	638	1,457	4,395	3,873
—Stope	(m)	1,209	1,589	2,018	1,468
Operating Expenditure	**(US$/t)**	**15.87**	**10.88**	**12.73**	**16.03**
—o/p	(US$/t)	8.74	6.58	6.74	9.60
—u/g	(US$/t)	25.23	12.23	12.50	15.89
—Mine Services	(US$/t)	4.26	2.18	3.20	2.72
—Mine General Costs	(US$/t)	0.00	0.00	0.00	0.18
—Ore Transportation Costs	(US$/t)	0.74	1.27	1.81	2.39

At the Dukat Mine RoM tonnage has increased from 2003 to the current (2006 YTD) 850ktpa which has largely been facilitated through increased production from the underground operations. RoM grades for gold have remained relatively constant in the open-pit and underground operations save for the 2006 (YTD) results in the open-pit. Silver grades in the open-pit have varied significantly, and are assumed to increase from 2006$^{(Q4)}$ onwards whilst in the underground operation a reduction of some 14% is expected in 2007. Notwithstanding the above current underground production at 39ktpm is some 14% below the budget for 2006 of 46ktpm.

Stripping ratios in the open-pits reflect the consolidated contribution from the five open-pits which are at various stages of depletion. Waste mining is currently some 10% below plan and will need to be addressed to maintain ore availability in 2007. The current stripping ratio of 5.0 is planned to increase in 2007 in accordance with the waste contribution from Pit No. 1.

Total development meters have increased since 2003 in accordance to support the increased production capacity of the underground operations and appear to be on target.

In respect of the unit operating expenditures the following comments apply:

- Open-pit unit operating expenditures reflected per tonne of ore mined vary in accordance with the stripping ratios: these are, however higher than planned and will need further focus to realign with the overall targets set for 2007;
- Underground unit operating expenditures are currently higher than planned and are assumed to reflect additional expenditures associated with the increased level of development; and
- Ore transportation costs vary in accordance with the varying haul distances from individual ore sources.

6.3.3 Mining LoMp

Table 6.2 presents the individual contribution of material to the LoMp sourced from the various Ore Reserve areas. The total Ore Reserve delivered to Dukat Plant is 18.6Mt grading 1.1g/t Au and 541.0g/t Ag containing 651koz of gold and 323.6Moz of silver. Table 6.3 gives the total mining statistics for the LoMp for open-pit and underground operations separately and includes RoM tonnages and grades, waste mined and stripping ratios, development meters and unit operating expenditures. In summary the salient features of the LoMp are:

- 80% of the open-pit ore is provided from open-pit No. 1 at an overall stripping ratio of 6.87 which is planned to be mined until cessation of open-pit mining in 2011. Maintaining performance in this section is critical if the production target of 950ktpa is to be maintained whilst the underground tonnage build up continues. Open-pit No. 3 was planned for depletion in Q4 2006 and No. 5 in 2007. No. 4 is due to commence in 2007 and No. 6 in 2009;
- The increased contribution to RoM tonnage from underground mining is largely planned to take effect in 2011 and 2012 when open-pit mining ceases. The key areas which require further focus in this regard are:
  - Incorporating a more gradual build-up into the production profiles for underground and smoothing out the open-pit production from open-pit No. 1;
  - Addressing the lack of detailed planning in respect of contribution from shrinkage and sub-level open stoping methods, specifically in respect of annual development requirements and tonnage contribution; and
- Ensuring that the higher than planned unit operating expenditures as experienced in 2006$^{(H1+Q4)}$ do not compromise the long-term targets as defined for the LoMp, specifically for the underground mining operations.

The principal opportunities associated with the LoMp are largely related to:

- The exploration potential associated with the Dukat ore field; and
- The potential to further increase mining production capacity at the underground mining operations.

Table 6.2 Dukat Mine: LoMp mining summary[(1)] (including stockpiles)

Mine Area	Tonnage (kt)	Grade		Content	
		(g/t Au)	(g/t Ag)	(koz Au)	(koz Ag)
o/p 1	1,241	1.4	630.9	57	25,177
o/p 3	8	0.9	87.5	0	24
o/p 4	139	1.4	583.7	6	2,606
o/p 5	107	1.3	345.7	5	1,188
o/p 6	73	0.8	258.5	2	607
u/g	16,838	1.1	539.6	578	292,096
s/p	200	0.5	301.2	4	1,937
Total	**18,606**	**1.1**	**541.0**	**651**	**323,635**

(1) Stripping ratios for the various open-pits are: 6.9 for o/p 1; 6.6 for o/p 3; 6.7 for o/p 4; 2.9 for o/p 5; and 11.4 for o/p 6.

Table 6.3 Dukat Mine: Mining LoMp (excluding stockpiles)

Statistics	Units	LoMp
Tonnage	**(kt)**	**18,406**
—o/p	(kt)	1,568
—u/g	(kt)	16,838
Gold Grade	**(g/t Au)**	**1.1**
—o/p	(g/t Au)	1.4
—u/g	(g/t Au)	1.1
Silver Grade	**(g/t Ag)**	**545.2**
—o/p	(g/t Ag)	605.6
—u/g	(g/t Ag)	539.6
Waste Mined o/p	**(kt)**	**10,645**
Stripping Ratio	**(t_{waste}:t_{ore})**	**6.8**
Development	**(m)**	**99,714**
—Capital	(m)	40,012
—Stope	(m)	59,703
Operating Expenditure	**(US$/t)**	**14.40**
—o/p	(US$/t)	7.46
—u/g	(US$/t)	11.17
—Mine Services	(US$/t)	2.28
—Mine General Costs	(US$/t)	0.45
—Ore Transportation Costs	(US$/t)	2.64

6.4 Vorontsovskoye

Mining operations at Vorontsovskoye Mine comprise two open-pits (North and New South) and stockpile reclamation. Open-pit mining operations are planned to continue for 13.25 years until 2019 with stockpile reclamation continuing until 2024. Given the variation in both oxide and primary ore mined stockpiles are routinely relied upon to facilitate a smooth production profile.

Current (2006 YTD) mining production rates (ore + waste) for the open-pit operations are 593ktpm, which are somewhat below the planned level of 866ktpm. Mining operations are currently focused at the North pit in which all oxide ore will be depleted by 2012 and primary ore production is increasing and will continue to operate until 2019. Production from the new South pit is planned to commence in 2011 and contributes less than 13% of total Ore Reserves included in the LoMp.

6.4.1 Mining Method and Equipment

Open-pit mining at Vorontsovskoye Mine comprises a conventional truck and shovel operation. Hydraulic excavators are currently used to load ore and waste from the mining face into 42t to 45t off-highway haul trucks. The ore is directed to RoM stockpiles adjacent to the pit, whilst most of the waste is taken to the principal waste dump to the north of the property. A fleet of contracted 15t and 20t capacity standard road trucks are used to transport ore to a RoM stockpile located adjacent to the process plant some 7km distant. At the Heap Leach Facility all ore is blended using a wheel loader according to moisture content and grade. The trucks and service units are standard Russian equipment which are leased by the Company, whilst the hydraulic excavators, bulldozers, wheel loaders and drill rigs are western and supplied by a variety of manufacturers. The western equipment is maintained with the assistance of outside specialists.

Drilling and blasting is undertaken on the primary ore and waste whilst the oxide ore is mainly free dig material. An in-pit crusher is used to size the limestone for use as road making or heap leach pad material by the Company or sold to local customers for construction purposes.

The Vorontsovskoye deposit is planned to be mined to an ultimate depth of some 200m below surface compared to the current depth of some 45m. The open-pit currently comprises one operating section the North pit where mining has reached some 45m below surface. Access to the current pit is effected through a number of main haul roads constructed at an inclination of 8%. Benches are cut at 5m heights and normally full production is obtained from some three working benches. The southern part of the current pit (the "old South pit") was a source of oxide and has been depleted and will be back-filled with waste mined from the North pit.

The rock types present at the mine are defined in terms of four principal classifications principally according to rock strength and the degree of weathering. The classifications are used to aid planning and geotechnical design of the mine. The planned pit slopes vary from some 33° to 35° above 130m level and 45° below 130m level where the design is principally dependent on the rock classification and hydrogeological aspects.

A number of hydrogeological studies have been conducted by the Company and by external consultants and this forms the basis of the de-watering and pumping requirements. It is projected that pumping requirements are likely to increase significantly with increasing depth from underground inflows. A series of de-watering holes at strategic positions surrounding the pit are being installed to manage the underground water whilst in-pit pumps, drainage channels and sumps are used to remove the excess ground water and inflows. There are currently seven de-watering holes from which some 610m^3/hr of water is pumped whilst some 200m^3/hr to 250m^3/hr is pumped from the pit during the summer months. A further three de-watering holes are planned in 2007 to a depth of 250m which will provide a further 300m^3/hr of de-watering capability.

A comprehensive grade control programme is in place at the mine based on sampling information derived from large diameter drilling and channel sampling on each bench for oxide ore and blast-hole sampling for primary ore. A geologist is present at all times in the cab of the excavator to assist with grade control. A high degree of selectivity between ore, waste and low-grade material is desired by the Company although it is likely that low-grade material will be processed, by heap leaching, later in the life of the mine and any misallocated ore should therefore be recovered.

The mine operates continuously throughout the year and a two 12hr shift pattern is employed on a four day work cycle. No heap leach production is possible during the winter months and mining operations focus on waste mining during this period. All operations apart from the contract road transport and the drilling operations at production and exploration sites are owner operated.

6.4.2 Historical mining operating statistics

Table 6.4 presents the historical mining operating statistics for Vorontsovskoye Mine.

Table 6.4 Vorontsovskoye Mine: historical mining operating statistics

Statistics	Units	2003	2004	2005	2006$^{(H1+Q3)}$
Tonnage	(kt)	753	897	908	577
Gold Grade	(g/t Au)	3.7	3.5	3.7	4.5
Silver Grade	(g/t Ag)	6.0	8.0	6.4	5.3
Waste Mined o/p	(kt)	5,126	6,948	6,337	4,758
Stripping Ratio	(t_{waste}:t_{ore})	6.8	7.7	7.0	8.2
Operating Expenditure	**(US$/t)**	**6.11**	**6.95**	**9.33**	**15.88**
—o/p	(US$/t)	4.40	5.06	5.76	10.50
—Mine Services	(US$/t)	1.71	1.11	2.24	3.28
—Mine General Costs	(US$/t)	0.00	0.00	0.00	0.00
—Ore Transportation Costs	(US$/t)	0.00	0.77	1.33	2.10

At the Vorontsovskoye Mine RoM tonnage has not increased substantially from 2003 and current (2006 YTD) 64ktpm is significantly behind the scheduled ore tonnage of 176ktpm. Total mined tonnage at 593ktpm is also behind the target total material mined tonnage of 866ktpm. RoM gold and silver grades are however significantly higher than planned.

Historical stripping ratios have ranged from 6.8 to the current (2006 YTD) 8.2, however waste mined is also some 40% behind the scheduled rate for 2006.

In respect of the unit operating expenditures these are significantly higher than planned and largely reflect the high contribution of fixed costs attributed to the low tonnages mined. Ore transportation costs which are dependent on varying haul distances from individual ore sources.

6.4.3 Mining LoMp

Table 6.5 presents the individual contribution of material to the LoMp sourced from the various Ore Reserve areas. The total Ore Reserve processed at the Vorontsovskoye Heap Leach Facility and CIP Facility is 22.0Mt grading 2.8g/t Au and 3.8g/t Ag containing 2.0Moz of gold and 2.7Moz of silver. Table 6.6

gives the total mining statistics for the LoMp and includes RoM tonnages and grades, waste mined and stripping ratios and unit operating expenditures. In summary the salient features of the LoMp are:

- Significantly improved mining rates for 2006$^{(Q4)}$ and 2007 for both ore and waste when compared with performance for 2006$^{(H1+Q3)}$;
- Some 16.6Mt of ore is mined from the North pit representing some 87.4% of the total open-pit ore mined, of which 92.0% is classified as primary ore;
- Some 2.4Mt of ore is mined from the new South pit representing some 12.6% of the total open-pit ore mined, of which 88.2% is classified as oxide ore;
- The assumption that re-optimisation of the open-pits using current metallurgical performances for both gold and silver at the Heap Leach Facility and the CIP Facility will not materially change the Ore Reserve statements (see Section 7.3 of this MER);
- The stripping ratios vary as the pits are depleted and the introduction of mining in the new South Pit in 2011; and
- Ensuring that the higher than planned unit operating expenditures as experienced in 2006($^{H1+Q4}$) do not compromise the long-term targets as defined for the LoMp.

Table 6.5 Vorontsovskoye Mine: LoMp mining summary (including stockpiles)

Mine Area	Tonnage (kt)	Grade (g/t Au)	Grade (g/t Ag)	Content (koz Au)	Content (koz Ag)
o/p 1—oxide	1,319	1.5	6.2	64	262
o/p 1—sulphide	15,249	3.3	4.0	1,602	1,967
o/p 2—oxide	2,100	2.1	3.0	140	205
o/p 2—sulphide	280	2.9	4.4	26	40
s/p	3,007	1.4	1.9	136	186
Total	**21,956**	**2.8**	**3.8**	**1,968**	**2,659**

Table 6.6 Vorontsovskoye Mine: Mining LoMp (excluding stockpiles)

Statistics	Units	LoMp
Tonnage	(kt)	18,949
Gold Grade	(g/t Au)	3.0
Silver Grade	(g/t Ag)	4.1
Waste Mined o/p	(kt)	85,544
Stripping Ratio	(t_{waste}:t_{ore})	4.5
Operating Expenditure	**(US$/t)**	**6.74**
—o/p	(US$/t)	4.62
—Mine Services	(US$/t)	0.89
—Mine General Costs	(US$/t)	0.31
—Ore Transportation Costs	(US$/t)	0.92

6.5 Lunnoye

Mining operations at Lunnoye currently comprise open pit and stockpile reclamation. In 2007, open-pit ore reserves will be depleted at the Lunnoye Mine and in H1 2007, open-pit mining is planned to commence at the Arylakh Project which will be depleted by 2015. Development of underground mining operations are planned to commence at the Lunnoye Mine in 2007 leading to ore production in 2008 which will continue to 2022.

Current (2006 YTD) ore mining production at 24ktpm is less than the scheduled 37ktpm for 2006 as is the total tonnes mined albeit only some 7% (at 183ktpm) less than the scheduled rate of 197ktpm. The key focus for 2007 will be the continued development of underground mining operations at the Lunnoye Mine and establishing replacement tonnages for the Lunnoye open-pit from the Arylakh Project. Timely development of these two projects is crucial to secure sustained production at Lunnoye.

6.5.1 Mining Method and Equipment

Open-pit mining at Lunnoye Mine comprises a conventional truck and shovel operation. A hydraulic excavator and wheel loader is currently used to load ore and waste from the mining face into nine off-highway 23t capacity articulated frame trucks. The trucks are standard Russian equipment whilst the hydraulic excavator, wheel loader, bulldozers and production drill rigs are western and obtained from a variety of manufacturers.

The Lunnoye open-pit operation is currently focussed on the mining of ore bodies No.1, No.2 and No.9, of which ore body No.1 is the main ore body. The ore bodies dip steeply at some 70° to 80° and average some 19m in width.

The topography adjacent to the deposit is steep and bulldozers have been used to push material over the pit edge in places that are inaccessible to non-tracked equipment. The Lunnoye open-pit is some 650m in length and 200m in width on surface and is planned to be mined to the 760m level. Due to the mountainous terrain, the final open-pit wall on the hangingwall side is likely to exceed some 200m. Final bench heights are planned at 30m with berms of 10m, resulting in pit slopes range from 45° to 50° but can be up to 60° in specific areas. Safety berms of 20m width are installed where necessary. Working bench heights are 7.5m and ore is transported to adjacent stockpiles or the front-end of the process plant whilst waste is directed to dumps situated to the east and west of the mine.

A grade control system is in place at the mine based on the results of diamond drill holes drilled at 10m intervals into the face of the bench horizontally from the floor of the bench. Production drilling is by percussion rotary drills with holes drilled at 127mm to 150mm diameter for ore and waste respectively. A pre-split is taken before firing the final blast of the face to promote slope stability. The strength of the surrounding waste rock is considered good and hydrogeology is relatively unimportant with principal water inflows resulting from precipitation and snowmelt.

A new road has recently been established to the mine from the main Dukat road that has improved communications and access for materials and equipment.

The Arylakh Project is planned as a satellite operation to Lunnoye Mine and will utilise some of Lunnoye's open-pit mining equipment as the underground operations are established. The mineralisation is steeply dipping and identified down to some 250m below surface. Similar mining methods are assumed and an excavator, a front-end loader, a drill rig and four articulated frame trucks are planned. Waste mining has now commenced at Arylakh Project which is planned to start providing ore in 2007.

The mine design comprises three pits over a strike length of some 3km, of which the central pit is the largest. The haul distance to the waste dumps is approximately 500m. The ultimate pit depths for open-pit No.1, No.2 and No.3 are 40m, 130m and 80m respectively. Pit slopes are planned at some 60° with final benches similar to those of Lunnoye Mine at 30m heights and with 10m berms. Working benches are planned to be 10m. Hydrogeological concerns are minimal and water inflows and pumping are related to snowmelt. A new access road has recently been established to the site.

Underground mining at Lunnoye Mine is planned to commence from the 750m level, and leave a 10m crown pillar to the base of the open-pit. A twin access adit is currently being developed on the 750m level to the orebody to initiate mining and from this a ramp will be installed to access the lower levels. Underground mining is planned from levels placed 50m apart and two stopes of some 50m in length have been laid out for initial stoping. A long-hole open stoping method is planned for the relatively thick orebody. Crown and rib pillars will be left on a regular spacing and recovered later in the life of the project. A fully mechanised mining fleet is planned in the underground operation based on LHDs and low profile underground dump trucks for ore and waste loading and hauling to surface. Stoping and development will be facilitated by long-hole production drill rigs and development jumbos respectively.

Lunnoye works continuously, on a four-week roster, utilising a two 11-hour shift pattern. The same shift patterns used at Lunnoye are likely to be employed at Arylakh Project.

6.5.2 Historical mining operating statistics

Table 6.7 presents the historical mining operating statistics for Lunnoye Mine and Arylakh Project.

Table 6.7 Lunnoye Mine and Arylakh Project: historical mining operating statistics

Statistics	Units	2003	2004	2005	2006(H1+Q3)
Tonnage	(kt)	322	296	233	217
Gold Grade	(g/t Au)	3.3	3.1	2.9	2.5
Silver Grade	(g/t Ag)	450.5	429.6	379.3	289.0
Waste Mined o/p	(kt)	1,834	2,096	1,757	1,429
Stripping Ratio	(t_{waste}:t_{ore})	5.7	7.1	7.5	6.6
Operating Expenditure	**(US$/t)**	**13.24**	**12.89**	**15.17**	**14.98**
—o/p	(US$/t)	7.95	10.18	9.26	10.91
—Mine Services	(US$/t)	5.30	2.71	5.92	4.06
—Mine General Costs	(US$/t)	0.00	0.00	0.00	0.02
—Ore Transportation Costs	(US$/t)	0.00	0.00	0.00	0.00

At the Lunnoye Mine RoM tonnage since 2003 has reduced to the current 24ktpm and is significantly behind the planned targets (37ktpm) for 2006. Performance in 2006 has been impacted by the capacity of the process plant notably the primary mill. A replacement mill was installed in April 2006, which has addressed this constraint although this entailed a month of lost production. Notwithstanding this comment forecasts for the open-pit operations for 2007 onwards are similar to that achieved in 2006 YTD. Total tonnage mined is however, only some 7% behind target.

RoM gold grades have steadily declined since 2003 and are planned to continue with the introduction of open pit mining at Arylakh Project. Silver grades since 2003 have similarly declined with current (2006 YTD) actual being some 10% below plan.

Stripping ratios for 2006 were forecasted at 4.3, however current (2006 YTD) actual are higher at 6.6 due to the combination of waste stripping being on targets and less ore mining.

Unit operating expenditures are higher than planned, however this is largely as a result of fixed costs, specifically for Mine Services, being distributed over lower than expected ore mining tonnages. As mining operations commence at the Arylakh Project ore transportation costs will be incurred for transportation to the Lunnoye Plant.

6.5.3 Mining LoMp

Table 6.8 presents the individual contribution of material to the LoMp sourced from the various Ore Reserve areas. The total Ore Reserve processed at the Lunnoye Plant is 4.6Mt grading 1.4g/t Au and 392.6g/t Ag containing 0.2Moz of gold and 57.6Moz of silver. Table 6.9 gives the total mining statistics for the LoMp and includes RoM tonnages and grades, waste mined and stripping ratios, development metres and unit operating expenditures. In summary the salient features of the LoMp are:

- Significantly improved mining rates for 2006(Q4) and 2007 for ore when compared with performance for 2006(H1+Q3);
- Timely development of open-pit mining operations at the Arylakh Project in 2007 to establish a maximum ore mining rate of 220ktpa in 2008; and
- Timely development of underground mining operations at the Lunnoye Mine to mine 100ktpa in 2008 and establish a maximum ore mining rate of 150ktpa in 2009.

The principal opportunities at Lunnoye Mine and Arylakh Project are associated with exploration potential which extends the underground mining operations at Lunnoye Mine and demonstrates underground mining potential at Arylakh Project.

Table 6.8 Lunnoye Mine and Arylakh Project: LoMp mining summary (including stockpiles)

Mine Area	Tonnage (kt)	Grade		Content	
		(g/t Au)	(g/t Ag)	(koz Au)	(koz Ag)
o/p—Lunnoye	286	2.3	396.7	21	3,647
o/p—Arylakh	1,779	0.9	467.9	52	26,765
u/g—Lunnoye 9	2,141	1.8	333.8	121	22,973
u/g—Lunnoye 7	183	1.0	589.6	6	3,470
s/p	173	1.4	132.4	8	738
Total	**4,562**	**1.4**	**392.6**	**208**	**57,594**

(1) Stripping ratios for the various open-pits are: 8.3 for Lunnoye Mine open pit; 6.6 for Arylakh Project open pit.

Table 6.9 Lunnoye Mine and Arylakh Project: Mining LoMp (excluding stockpiles)

Statistics	Units	LoMp
Tonnage	**(kt)**	**4,389**
—o/p	(kt)	2,065
—u/g	(kt)	2,324
Gold Grade	**(g/t Au)**	**1.4**
—o/p	(g/t Au)	1.1
—u/g	(g/t Au)	1.7
Silver Grade	**(g/t Ag)**	**402.9**
—o/p	(g/t Ag)	458.0
—u/g	(g/t Ag)	354.0
Waste Mined o/p	**(kt)**	**14,143**
Stripping Ratio	**(t_{waste}:t_{ore})**	**6.8**
Development	**(m)**	**16,460**
—Capital	(m)	4,428
—Stope	(m)	12,032
Operating Expenditure	**(US$/t)**	**21.78**
—o/p	(US$/t)	13.96
—u/g	(US$/t)	16.94
—Mine Services	(US$/t)	3.80
—Mine General Costs	(US$/t)	0.81
—Ore Transportation Costs	(US$/t)	1.64

6.6 Khakanjinskoye

Current mining operations at Khakanjinskoye comprise open pit and stockpile reclamation. Open-pit mining operations are planned to continue to 2015 with depletion from four separate open pits: three at Khakanjinskoye Mine, Open-pit No. 1 operating to 2010, Open-pit No. 2 operating from 2007 through 2008 inclusive, Open-pit No. 3 operating from 2011 through 2014 inclusive; and one at Yurievskoye Project operating from 2013 to 2015 inclusive. Underground mining operations are planned at Khakanjinskoye Mine as extensions to mining operations at Open-pit No. 1 and Open-pit No. 3 from 2011 to 2016 inclusive.

Current (2006 YTD) ore mining production at 55ktpm is marginally less (10%) than the scheduled 60ktpm for 2006 as is the total tonnes mined at 14% (at 371ktpm) less than the scheduled rate of 431ktpm. The lower than planned production is related to process plant performance. The key focus for 2007 will be commencement of mining operations at Open-pit No. 2.

6.6.1 Mining Method and Equipment

Open-pit mining at Khakanjinskoye Mine comprises a conventional truck and shovel operation. Hydraulic excavators are currently used to load ore and waste from the mining face into 42t to 45t off-highway trucks for transport to the RoM stockpile located at the plant some 5km distant and to the waste dumps nearby. The trucks are standard and service units are standard Russian equipment whilst the hydraulic excavators, bull dozers, wheel loaders and drill rigs are western and supplied by a variety of manufacturers.

The ore bodies mined at Khakanjinskoye Mine are located at two sites: central and southeast. The ore body at the Central site is contiguous, but separated by faults into blocks that dip shallowly at some 25° to 30° into the side of a hill and mining will be encompassed by Open Pit No. 1. Two ore bodies exist at the southeast site that will be exploited by Open-pit No.2 and No3. Open-pit No.1 will be the largest of the three pits containing 56% of the Ore Reserves and planned to be 1,000m in length and 450m in width at surface and is to be mined to a depth of some 190m. Open-pits No.2 and No.3 are much smaller and are planned to be mined to a depth of some 80m and 140m respectively.

The open-pit ore at the Khakanjinskoye Mine is mined selectively and is categorised into high-grade and low-grade ore respectively. Grade control is undertaken at the site. The high-grade ore is being prioritised for treatment in the early years while the low-grade ore will be stockpiled and reclaimed later in the LoM plan. Some 500kt of ore has been stockpiled for treatment and mining operations are currently focusing on the establishment of mining at Open-pit No. 2 situated to the south.

The inclination of the main haul road is favourable for mining as the Central deposit is located at a higher elevation than the plant and the road is inclined at some 7%. The depletion of the deposit will result in a reduction in haul distance over the life of the mine to a minimum of some 3km. Pit slopes at the three open-pits range from 37° to 40° and final benches of 30m with 10m berms are planned. Working benches are planned at some 7.5m with sub-benches of 3.75m where it is necessary to be more selective. Smooth blasting techniques are planned to be employed close to the final pit bench position in order to maintain the integrity of the wall rock and ultimate pit slopes.

With regard to hydrogeological aspects and water inflows the upper parts of the open-pits are above the water table. Pumping requirements are minimal at present. Ground water inflows will only become apparent below the 400m level, some 70m below surface for Open-pit No.1. Normal pumping requirements will be moderate at some $30m^3/hr$ to $100m^3/hr$ although the design will cater for inflows of up to $300m^3/hr$.

The Yurievskoye deposit is located some 80km from Khakanjinskoye Mine and it is planned to blend ore from this pit with that from Khakanjinskoye Mine. The deposit is relatively small in size and dips at between 60° and 80°. The operation will be mined by two open-pits planned to extract the ore to some 60m in depth with pit slope angles of 50°. RoM ore transport from the deposit to Khakanjinskoye Plant is reported to be difficult as there will be four rivers to cross along the 40km route from the established road. The production rate is however relatively small and thus will not necessitate continuous mining and transport.

Underground mining at Khakanjinskoye Mine is planned to commence in 2011 from underground extensions to Open-pit No.1 and Open-pit No. 3 to a maximum depth of 250m below surface. Maximum production capacity is planned at 150ktpa and is planned to be achieved in 2012 using long-hole stoping methods. The mining operation will be fully mechanised with LHDs and low profile dump trucks used to transport the ore to the surface. The Company plans to use rubber tyred long-hole production drill rigs for stoping and jumbos for underground development.

Operations are undertaken on a continuous basis on a two 12hr shift pattern. The rotation has recently been increased to every two months to reduce logistics and transport costs. Only some three to five days are lost per year due to blizzards, fog and poor visibility and mining operational performance has been improved. The 90km main access road to Khakanjinskoye Mine has been upgraded through the establishment of improved river crossings and is available for the transport of supplies and consumables to the mine all year around.

6.6.2 Historical mining operating statistics

Table 6.10 presents the historical mining operating statistics for Khakanjinskoye Mine.

Table 6.10 Khakanjinskoye Mine: historical mining operating statistics

Statistics	Units	2003	2004	2005	2006(H1+Q3)
Tonnage	(kt)	63	617	721	492
Gold Grade	(g/t Au)	5.8	7.2	6.2	6.0
Silver Grade	(g/t Ag)	218.0	231.1	230.8	225.9
Waste Mined o/p	(kt)	1,732	2,273	4,001	2,847
Stripping Ratio	(t_{waste}:t_{ore})	27.6	3.7	5.6	5.8
Operating Expenditure	**(US$/t)**	**78.25**	**6.66**	**5.51**	**6.86**
—o/p	(US$/t)	47.73	4.46	3.96	5.14
—Mine Services	(US$/t)	30.52	2.20	1.54	1.51
—Mine General Costs	(US$/t)	0.00	0.00	0.00	0.21
—Ore Transportation Costs	(US$/t)	0.00	0.00	0.00	0.00

At the Khakanjinskoye Mine RoM tonnage since 2003 has remained relatively constant, however current 55ktpm is marginally behind the planned targets (60ktpm) for 2006 although this is plant related. Forecasts for the open-pit operations for 2007 are higher at 64ktpm and total tonnage mined is planned to increase from the current 371ktpm to 645ktpm in 2007 and 694ktpm in 2008.

RoM gold grades have steadily declined since 2004 and current performance is in accordance with that planned. Current RoM silver grades are also aligned with that budgeted.

Unit operating expenditures vary in accordance with the stripping ratios and haul distances for both waste and ore, however unit operating costs are less than that budgeted despite achieving lower tonnages.

6.6.3 Mining LoMp

Table 6.11 presents the individual contribution of material to the LoMp sourced from the various Ore Reserve areas. The total Ore Reserve processed at the Khakanjinskoye Plant is 5.4Mt grading 5.6g/t Au and 219.3g/t Ag containing 1.0Moz of gold and 38.2Moz of silver. Table 6.12 gives the total mining statistics for the LoMp and includes RoM tonnages and grades, waste mined and stripping ratios, development metres and unit operating expenditures. In summary the salient features of the LoMp are:

- Improved mining rates for 2006(Q4) and 2007 for ore when compared with performance for 2006(H1+Q3);
- Timely development of open-pit mining operations at the Open-pit No. 2 in 2007 to establish a maximum ore mining rate of 112ktpa in 2008. This is planned to be further supplemented by commencing mining operations at Open-pit No. 3 in 2011 and Yurievskoye Project in 2013; and
- Timely development of underground mining operations at the Khakanjinskoye Mine to mine 100ktpa in 2011 and establish a maximum ore mining rate of 150ktpa in 2002.

The principal opportunities at Khakanjinskoye Mine and Yurievskoye Project are associated with exploration potential which extends the underground mining operations at Khakanjinskoye Mine and demonstrates underground mining potential at Yurievskoye Project.

Table 6.11 Khakanjinskoye Mine and Yurievskoye Project: LoMp mining summary (including stockpiles)

Mine Area	Tonnage (kt)	Grade		Content	
		(g/t Au)	(g/t Ag)	(koz Au)	(koz Ag)
o/p—KHK 1	2,085	5.9	222.9	397	14,947
o/p—KHK 2	232	6.0	213.6	45	1,592
o/p—KHK 3	1,408	3.7	291.1	166	13,181
o/p—YVK 1	388	13.3	11.4	166	142
u/g—KHK 1 + 3	792	4.9	243.4	124	6,201
s/p	507	4.4	128.3	71	2,092
Total	**5,412**	**5.6**	**219.3**	**969**	**38,153**

Table 6.12 Khakanjinskoye Mine: Mining LoMp (excluding stockpiles)

Statistics	Units	LoMp
Tonnage	**(kt)**	**4,905**
—o/p	(kt)	4,113
—u/g	(kt)	792
Gold Grade	**(g/t Au)**	**5.7**
—o/p	(g/t Au)	5.9
—u/g	(g/t Au)	4.9
Silver Grade	**(g/t Ag)**	**228.7**
—o/p	(g/t Ag)	225.8
—u/g	(g/t Ag)	243.4
Waste Mined o/p	**(kt)**	**45,506**
Stripping Ratio	**(t_{waste}:t_{ore})**	**11.1**
Development	**(m)**	**5,236**
—Capital	(m)	3,413
—Stope	(m)	1,823
Operating Expenditure	**(US$/t)**	**17.12**
—o/p	(US$/t)	13.65
—u/g	(US$/t)	8.92
—Mine Services	(US$/t)	2.44
—Mine General Costs	(US$/t)	0.77
—Ore Transportation Costs	(US$/t)	1.02

6.7 Mining Summary

Table 6.13 gives the total mining LoMp statistics for the Mining Assets. The total Ore Reserve processed at the metallurgical plants is 50.5Mt grading 2.3g/t Au and 260.3g/t Ag containing 3.8Moz of gold and 423.0Moz of silver. Table 6.14 presents the total LoMp mining statistics and includes RoM tonnages and grades, waste mined and stripping ratios, development metres and unit operating expenditures.

Table 6.13 Mining Assets: LoMp mining summary (including stockpiles)

Mine Area	Tonnage (kt)	Grade (g/t Au)	Grade (g/t Ag)	Content (koz Au)	Content (koz Ag)
Open-pit	**26,695**	**3.2**	**108.7**	**2,748**	**93,284**
Dukat	1,568	1.4	605.6	70	30,537
Vorontsovskoye	18,949	3.0	4.1	1,832	2,473
Lunnoye	2,065	1.1	458.0	73	30,413
Khakanjinskoye	4,113	5.9	225.8	774	29,861
Underground	**19,954**	**1.3**	**506.2**	**830**	**324,740**
Dukat	16,838	1.1	539.6	578	292,096
Vorontsovskoye	0	0.0	0.0	0	0
Lunnoye	2,324	1.7	354.0	127	26,443
Khakanjinskoye	792	4.9	243.4	124	6,201
Stockpiles	**3,888**	**1.8**	**39.6**	**219**	**4,953**
Dukat	200	0.5	301.2	4	1,937
Vorontsovskoye	3,007	1.4	1.9	136	186
Lunnoye	173	1.4	132.4	8	738
Khakanjinskoye	507	4.4	128.3	71	2,092
Ore Reserves					
Dukat	18,606	1.1	542.6	651	324,570
Vorontsovskoye	21,956	2.8	3.8	1,968	2,659
Lunnoye	4,562	1.4	392.6	208	57,594
Khakanjinskoye	5,412	5.6	219.3	969	38,153
Total	**50,537**	**2.3**	**260.3**	**3,797**	**422,977**

6.7.1 Key LoMp improved performance issues

The key features associated with the LoMp mining operations are:

- **At Dukat:** the projected increase in underground mining production from the current 39ktpm to 46ktpm in 2007 and 76ktpm in 2011; and ensuring that the higher than planned unit operating expenditures as experienced in 2006$^{(H1+Q4)}$ do not compromise the long-term targets as defined for the LoMp, specifically for the underground mining operations. Further considerations whilst not directly related to improvements beyond current performance, include the increased contribution of production sourced form shrinkage stoping methods;

- **At Vorontsovskoye:** the projected significant increase in mining rates for both ore and waste when compared to current (2006 YTD) performance; the projected significant increases in metallurgical recoveries for both gold and silver at the Heap Leach facility and the CIP facility, specifically in that continued below budget performance will not materially impact on the ore reserve position should re-optimisation be required; and ensuring that the higher than planned unit operating expenditures as experienced in 2006$^{(H1+Q4)}$ do not compromise the long-term targets as defined for the LoMp;

- **At Lunnoye:** significantly improved mining rates for 2006$^{(Q4)}$ and 2007 for ore when compared with performance for 2006$^{(H1+Q3)}$; timely development of open-pit mining operations at the Arylakh Project in 2007 to establish a maximum ore mining rate of 220ktpa in 2008; and timely development of underground mining operations at the Lunnoye Mine to mine 100ktpa in 2008 and establish a maximum ore mining rate of 150ktpa in 2009; and

- **At Khakanjinskoye:** improved mining rates for 2006$^{(Q4)}$ and 2007 for ore when compared with performance for 2006$^{(H1+Q3)}$; timely development of open-pit mining operations at the Open-pit No. 2 in 2007 to establish a maximum ore mining rate of 112ktpa in 2008. This is planned to be further supplemented by commencing mining operations at Open-pit No. 3 in 2011 and Yurievskoye Project in 2013; and timely development of underground mining operations at the Khakanjinskoye Mine to mine 100ktpa in 2011 and establish a maximum ore mining rate of 150ktpa in 2012.

Table 6.14 Mining Assets: Mining LoMp

Statistics	Units	LoMp
Tonnage	**(kt)**	**46,649**
Dukat	(kt)	18,406
Vorontsovskoye	(kt)	18,949
Lunnoye	(kt)	4,389
Khakanjinskoye	(kt)	4,905
Gold Grade	**(g/t Au)**	**2.4**
Dukat	(g/t Au)	1.1
Vorontsovskoye	(g/t Au)	3.0
Lunnoye	(g/t Au)	1.4
Khakanjinskoye	(g/t Au)	5.7
Silver Grade	**(g/t Ag)**	**278.7**
Dukat	(g/t Ag)	545.2
Vorontsovskoye	(g/t Ag)	4.1
Lunnoye	(g/t Ag)	402.9
Khakanjinskoye	(g/t Ag)	228.7
Operating Expenditure	**(US$/t)**	**14.44**
Dukat	(US$/t)	19.91
Vorontsovskoye	(US$/t)	6.74
Lunnoye	(US$/t)	21.78
Khakanjinskoye	(US$/t)	17.12

7 METALLURGICAL PROCESSING

7.1 Introduction

This section includes discussion and comment on the metallurgical processing aspects associated with the Mining Assets. Specifically, detail and comment are given on the process metallurgy and process engineering aspects relating to plant capacity, metallurgical recovery, metallurgical accounting and operating expenditure for the execution of the LoMp.

SRK note that no estimation of the recovery of metals on closure has been undertaken, accordingly this remains an opportunity.

The operating expenditures as included in the following sections are related only to that classified as metallurgical processing related expenditures. To arrive at the total cost per tonne mined, the reader is referred to the unit costs included in Section 5.0 for Mining and Section 8.0 for overheads in addition to the revenue related costs in Section 13.0.

7.2 Dukat

Dukat comprises a single processing facility, the Dukat Plant, which produces a mixed sulphide concentrate which is further processed at the Lunnoye Plant to produce precipitate. The precipitate is then transported to the Company's wholly owned smelter situated nearby to the Dukat Plant to produce doré for onwards sale.

RoM ore is currently supplied from both open-pit and underground operations, the former of which is planned to cease in 2011, the latter of which is planned to cease in 2026.

7.2.1 Processing Facilities

Dukat Plant currently processes ore from the open-pit and underground operations which is delivered to the Dukat Plant by truck from the various mining operations. The Dukat Plant operated under previous ownership from 1980 to 1997. In 1998 a feasibility study was undertaken which assessed the upgrading of the plant to process 750ktpa. Following acquisition by the Company the upgrade was implemented and completed with production at the increased rate commencing in November 2003.

RoM ore is processed using conventional sulphide flotation technology with an operating production capacity of 950ktpa. The Dukat Plant flowsheet (Figure 7.1) comprises crushing, milling, flotation and gravity separation to produce a precious metal concentrate.

Run of Mine ore is crushed at the pit to nominally 85% at -200mm and trucked to the plant feed stockpile. Crushed ore is treated in a three stage grinding circuit, a single SAG mill operating in closed circuit with a screen followed by two ball mills operating in series each in closed circuit with hydrocyclones. A sand flotation cell has recently been installed in the grinding circuit on hydrocyclone underflow to recover coarse sulphides. Free gold is recovered from the hydrocyclone overflow using a centrifugal gravity concentrator. Gravity concentrator tailings are pumped to the rougher-scavenger flotation circuit to recover a silver-gold bearing sulphide concentrate. The rougher concentrate is cleaned in a single stage of flotation and the final concentrate is thickened, filtered and dried prior to shipping to the Lunnoye Plant for cyanide leaching and recovery of silver and gold in a Merrill Crowe zinc precipitation plant and smelt house. The installation of the additional sand flotation equipment and upgrading of the filtration circuit is projected to increase concentrate production and improve overall metal recovery. Tailings are pumped to the current No. 2 tailings dam situated 230m distant from the Dukat Plant.

Historical recoveries for 2006 YTD are noted at 75.8% and 81.0% for gold and silver respectively. A new gravel flotation circuit is planned to be commissioned in 2007 which in conjunction with projected improvements at the Lunnoye Plant seeks to increase overall recoveries to 79.6% for gold in 2007 and 86% for silver in 2009.

In addition to the above, the Company has commenced investigating the possibility of further increasing plant throughput to 1.5Mtpa from the current 950ktpa via the construction of a new SAG mill situated adjacent to the current Dukat Plant. This objective is currently the subject of a scoping study which is focusing on exploring the flanks of the currently identified deposits at the Dukat Mine. In 2007, the Company aims to upgrade the scoping study to a pre-feasibility study addressing all relevant disciplines from exploration to environmental are appropriately addressed. Assuming a positive outcome which demonstrates economic viability as well as identifying JORC compliant Mineral Resources and Ore Reserves the Company will seek to produce a Feasibility Study in 2008. Currently results indicate a capital spend of US$51.2m, US$18m of which is allocated to exploration with expanded production of some 500ktpa commencing in 2010.

7.2.2 Historical processing operating statistics

Table 7.1 below gives the historical processing operating statistics for the Dukat Plant.

Table 7.1 Dukat Plant: historical processing operating statistics

Statistics		2003	2004	2005	2006(H1+Q3)
Tonnage	(ktpm)	46	64	72	71
Tonnage	(kt)	548	765	867	642
Grade	(g/t Au)	1.6	1.4	1.2	1.2
	(g/t Ag)	782.7	605.6	608.2	568.0
Metallurgical Recovery	(% Au)	60.8%	74.6%	72.3%	75.8%
	(% Ag)	51.8%	80.4%	78.5%	81.0%
Operating Expenditure	(US$/t)	10.63	10.09	10.10	10.32

At the Dukat Plant process throughput has increased over the reporting period to the current levels of 71ktpm. Metallurgical recoveries for gold and silver have increased to the current 75.8% and 81.0% respectively. Notwithstanding the increases in tonnage the unit operating costs have increased largely as a result of increased costs of consumables and modifications to the metallurgical plant.

The historical metallurgical recoveries represent the net recovery to refined product (doré) and include the following:

- For gold:
  - Recovery to concentrate at 84% (2006 YTD);
  - Recovery to cementate at 92% (2006 YTD); and
  - Recovery to Doré at 99.5% (2006 YTD).
- For silver:
  - Recovery to concentrate at 86% (2006 YTD);
  - Recovery to cementate at 95% (2006 YTD); and
  - Recovery to Doré at 99.5% (2006 YTD).

7.2.3 Processing LoMp

Table 7.2 below gives the total LoMp processing operating statistics for the Dukat Plant. In summary the salient features are:

- The projected increase in overall processing capacity to 950ktpa by 2008;
- A reduction in the RoM gold grade and silver grade in accordance with the LoMp;
- The projected increase in the metallurgical recovery of gold from the current 76.9% to 79.6% in 2007 as a result of increased recovery to concentrate from the current 84% to 87% in 2007;
- The projected increase in the metallurgical recovery of silver from the current 81% to 86% in 2008 as a result of increased recovery to concentrate from the current 86% to 90% in 2008 and recovery to cementate from the current 95% to 96% in 2007;
- The projected increase in mass pull to concentrate from the current 2.50% to 3.75% by 2007;
- The assumption that the Lunnoye Plant will continue to operate beyond cessation of mining operations at Lunnoye in 2022 and continue until 2026; and
- The projected sustainability of operating expenditures broadly aligned with current performance.

Table 7.2 Dukat Plant: LoMp processing operating statistics

Statistics	Units	LoMp
Tonnage	(kt)	18,606
Grade	(g/t Au)	1.1
	(g/t Ag)	542.6
Metallurgical Recovery	(% Au)	79.6%
	(% Ag)	85.9%
Operating Expenditure	(US$/t)	12.63

7.3 Vorontsovskoye

Vorontsovskoye comprises two separate processing facilities: a Heap Leach Facility for treatment of oxidised ore; and a CIP Facility for processing of sulphide material. The company commenced operations of the heap leach facility in 2000 and anticipates that due to the depletion of oxide ore, future heap leaching will mainly be sourced from the shallow pit and stockpiles. Construction of the CIP facility was completed in November 2004 and in 2005 processing commenced at an annualised production rate of 600ktpa.

RoM ore is currently supplied from open-pit and stockpile operations, the former of which is planned to cease in 2019.

7.3.1 Processing Facilities

The Heap Leach Facility (Figure 7.2) with a rated operating capacity of 800ktpa, currently processes ore from the open-pit and stockpile. This is further supplemented by the re-handling of old heaps for which a dragline has been commissioned. RoM ore is crushed through a two stage crusher prior to agglomeration with cement and stacking on the heaps. Cyanide solution is sprayed on to the heaps and the resultant solution containing gold and some silver is treated in a Merrill Crowe zinc precipitation circuit to produce a zinc cementate (containing 15.8% metals) which is smelted on site to produce gold and silver metal. Doré bars are shipped for toll treatment to third-party state-owned refineries, with the end product being commercial bullion.

Heap stacking is carried out from April through October while cyanide solutions are applied and gold is recovered year-round. Leach pads are constructed on a solid base of clay and crushed stone with a 2mm low density polyethylene liner to ensure full containment of cyanide-bearing solutions.

The CIP facility (Figure 7.3) with a rated operating capacity of 600ktpa currently processes ore from the open-pit. RoM sulphide ore is processed using a conventional crushing, milling, leaching and zinc precipitation. A three stage crushing plant produces a fine feed for ball milling. Crushed ore is treated in a two stage ball mill circuit. The first ball mill operates in closed circuit with screen and the circuit product passes to the second ball mill circuit. The second ball mill operates in closed circuit with hydrocyclones and cyclone overflow is thickened and pumped to a four stage cyanide leach circuit. Leach circuit product containing gold in solution passes to a six stage CIP circuit where the gold is adsorbed on to activated carbon. The CIP circuit was modified in 2006 to increase recovery rates by improving carbon transfer, increasing pulp aeration and introducing carbon attrition screens. Specifically, new interstage screens and improved air spargers and an expansion to increase residence time. Loaded carbon containing the gold is treated in a batch desorption circuit and the resultant gold bearing solution is treated in an electro-winning circuit to produce a cathode sediment (containing 80% metals) which is smelted on site to produce gold and silver metal. Tailings from the CIP Facility are not detoxed, filtered and dry-stacked on a lined pad preventing cyanide discharge and providing minimal disturbance of the landscape.

In the third quarter of 2006, the Company began construction in order to increase the operating capacity of the CIP facility. The Company plans to increase operating capacity at the CIP Facility to up to 940ktpa during 2008 and 2009. In the first stage, the Company expects to replace the existing secondary and tertiary crushing circuit with a SAG mill by the end of 2007. The Company currently believes that the plant should reach its new operating capacity of 940ktpa by the end of 2008 following renovation of leaching and filtering sections.

Historical recoveries for the Heap Leach Facility for 2006 YTD are noted at 56.2% and 12.2% for gold and silver respectively. Historical recoveries for the CIP Facility for 2006 YTD are noted at 77.4% and 37.6% for gold and silver respectively.

7.3.2 Historical processing operating statistics

Table 7.3 below gives the historical processing operating statistics for the metallurgical plants in operation at Vorontsovskoye.

Table 7.3 Vorontsovskoye Plant: historical processing operating statistics

Statistics		2003	2004	2005	2006(H1+Q3)
Total Facility					
Tonnage	(ktpm)	69	75	85	108
Tonnage	(kt)	827	906	1,019	968
Grade	(g/t Au)	3.9	3.6	3.3	3.4
	(g/t Ag)	2.4	8.9	6.6	9.5
Metallurgical Recovery	(% Au)	88.8%	73.2%	67.4%	68.1%
	(% Ag)	100.0%	21.9%	26.1%	16.8%
Operating Expenditure	(US$/t)	4.69	4.11	7.21	12.09
Heap Leach Facility		**2003**	**2004**	**2005**	**2006(H1+Q3)**
Tonnage	(ktpm)	69	75	59	72
Tonnage	(kt)	827	906	704	649
Grade	(g/t Au)	3.9	3.6	2.9	2.2
	(g/t Ag)	6.7	8.9	7.0	11.7
Metallurgical Recovery	(% Au)	88.8%	72.3%	66.0%	56.2%
	(% Ag)	35.7%	21.4%	24.0%	12.2%
Operating Expenditure	(US$/t)	4.69	4.11	7.21	12.09
CIP Facility		**2003**	**2004**	**2005**	**2006(H1+Q3)**
Tonnage	(ktpm)	0	0	26	35
Tonnage	(kt)	0	0	315	318
Grade	(g/t Au)	0.0	0.0	4.3	5.7
	(g/t Ag)	0.0	0.0	5.8	5.2
Metallurgical Recovery	(% Au)	0.0%	0.0%	69.7%	77.4%
	(% Ag)	0.0%	0.0%	31.8%	37.6%
Operating Expenditure	(US$/t)	0.00	0.00	7.21	12.09

At the Heap Leach Facility process throughput has increased over the reporting period to the current levels of 108ktpm. Metallurgical recoveries for gold and silver, however, have decreased to the current 56.2% and 12.2% respectively, specifically when compared with the performance of 2003. SRK notes that the planned metallurgical recoveries for gold assume an overall recovery of 80% after 18 months, with 65% being achieved after 12 months and the remaining 15% after a further 6 months. Consequently and taking cognisance of fluctuations in RoM grade, it would be expected that a steady state regime would be established after say two years. The current reduction in head grade and the continued decline in metallurgical performance is indicative of sub-optimal performance in respect of the assumed recoveries. SRK recognises that opportunities exists, specifically to reprocess the older heaps and attempt to increase metallurgical recoveries to achieve the overall 80% as envisaged by the Company. Further SRK notes the similar reductions with respect to the metallurgical recovery of silver.

Notwithstanding the above, SRK notes that the cumulative gold recovery assessed annually from 1 January 2003 is 88.8%, 80.5%, 76.9% and 74.0% for 2003, 2004, 2005 and 2006(H1+Q3) respectively. The cumulative silver recovery assessed annually from 1 January 2003 is 35.7%, 27.2%, 26.3% and 22.2% for 2003, 2004, 2005 and 2006(H1+Q3) respectively.

At the CIP facility process throughput has increased to the current 35ktpm, however this is less than the current operating capacity of 50ktpm (600ktpa). Performance in 2005 was also below expectations due to variable ore characteristics and reduced throughput during the rainy season. Metallurgical recoveries at 77.4% for gold and 37.6% for silver are less than planned (83.4% for gold and 46.5% for silver), however marked improvements were noted in 2005 and the upward trend appears to be continuing.

Operating expenditures are only readily available on a complex level (Heap Leach Facility and CIP Facility combined), accordingly unit costs as presented are the same for both as a result of apportionment on a tonnage basis only. Overall unit costs have increased with the introduction of the CIP Facility with 2004 unit costs at US$4.11/t reflecting Heap Leach operations and US$7.40 in 2019 once production has reached 940ktpa. SRK also notes that the overall unit costs of US$12.09/t for 2006$^{(H1+Q3)}$ are overall significantly higher than planned. These are in part, however, related to actual costs for heap-leach base expansion, re-excavation of old heaps, start-up costs for the dragline being higher than planned.

The historical metallurgical recoveries represent the net recovery to refined product doré and include the following:

- For the Heap Leach Facility all metallurgical recoveries are net of recovery to doré which is estimated at 99.5%; and
- For the CIP Facility all metallurgical recoveries are net of recovery to doré which is estimated at 99.9%.

7.3.3 Processing LoMp

Table 7.2 below gives the total LoMp processing operating statistics for the Vorontsovskoye Plant. In summary the salient features are:

- **For the Heap Leach Facility:**
  - The projected capping of RoM tonnage at 800ktpa reducing thereafter prior to cessation of heap leaching in 2015;
  - The continued reduction in RoM gold grades to attain 1.3g/t Au by 2011;
  - Significantly improved metallurgical recoveries over that achieved historically for gold of 79.6% from 1 October 2006 onwards;
  - Significantly improved metallurgical recoveries over that achieved historically for silver of 34.5% from 1 October 2006 onwards; and
- **For the CIP Facility:**
  - The projected increase in RoM throughput to 940ktpa by 2009 which is maintained until planned cessation of operations in 2024;
  - The continuation of historical increase in metallurgical recoveries for gold to 84.9% by 2009;
  - The continuation of historical increase in metallurgical recoveries for silver to 46.5% by 2009.

In addition to the above, SRK notes that operating expenditures in 2006 are higher than planned and that for the unit cost levels projected in the LoMp to be attained further focus on cost containments in addition to achieving the planned throughput.

Table 7.4 Vorontsovskoye Plant—Heap Leach Facility: total LoMp processing operating statistics

Statistics	Units	LoMp
Tonnage	(kt)	5,746
Grade	(g/t Au)	1.6
	(g/t Ag)	3.1
Metallurgical Recovery	(% Au)	79.6%
	(% Ag)	34.5%
Operating Expenditure	(US$/t)	7.34

Table 7.5 Vorontsovskoye Plant—CIP Facility: total LoMp processing operating statistics

Statistics	Units	LoMp
Tonnage	(kt)	16,210
Grade	(g/t Au)	3.2
	(g/t Ag)	4.0
Metallurgical Recovery	(% Au)	84.6%
	(% Ag)	46.4%
Operating Expenditure	(US$/t)	7.37

7.4 Lunnoye

Lunnoye comprises a single processing facility, the Lunnoye Plant, which treats RoM ore as well as concentrate sourced from Dukat. The precipitate produced is then further processed at the Company's wholly owned smelter situated nearby to the Dukat Plant to produce doré for onwards sale.

RoM ore is currently sourced from open-pits at the Lunnoye Mine which is planned to be replaced by open-pit ore from the Arylakh Project in 2008 which will then continue until 2015. Further in 2008, RoM ore will be supplemented by production from underground mining at the Lunnoye Mine which will continue until 2022.

7.4.1 Processing Facilities

Lunnoye Plant currently processes ore from the open-pit operations which is delivered to the plant by mine trucks. Dukat concentrates are trucked from Dukat and handled through a new unloading facility.

RoM ore is processed using conventional technology with an operating production capacity of 300ktpa of ore and 50ktpa of concentrate. The Lunnoye Plant flowsheet (Figure 7.4) comprises crushing, milling, leaching and precipitation to produce zinc precipitate.

RoM ore is crushed prior to feeding to the grinding circuit together with Dukat concentrate. Silver and gold are extracted from these solids using cyanide, added in the leach plant, and the metal rich solution is separated from the leached solids in a pre-leach thickener and a post-leach counter current washing circuit. The solution is processed in a Merrill Crowe zinc precipitation circuit to produce a zinc cementate (containing 72.9%) which is smelted to produce silver and gold. The leach plant is being expended to accept a higher tonnage of Dukat concentrate and to improve leach extraction of gold and silver. Tailings from the wash circuit are detoxed of cyanide prior to pumping to the tailings dam, a conventional valley type impoundment.

7.4.2 Historical processing operating statistics

Table 7.6 below gives the historical operating statistics for the Lunnoye Plant. Note that physical statistics as presented relate only to material sourced from Lunnoye Mine RoM ore and that the operating expenditures does not include any toll treatment revenues received from Dukat Mine.

Table 7.6 Lunnoye Plant: historical processing operating statistics

Statistics	Units	2003	2004	2005	$2006^{(H1+Q3)}$
Tonnage	(ktpm)	21	21	21	22
Tonnage	(kt)	246	257	257	201
Grade	(g/t Au)	3.2	3.6	3.1	2.5
	(g/t Ag)	453.4	446.6	436.0	324.5
Metallurgical Recovery	(% Au)	60.8%	95.5%	97.4%	92.5%
	(% Ag)	75.8%	94.7%	89.0%	88.6%
Operating Expenditure	(US$/t)	38.41	37.09	26.91	42.49

At the Lunnoye Plant process throughput has marginally increased since 2005 and is planned to operate at the operating capacity of 300kpta in $2006^{(Q4)}$ and 2007. Since 2004, metallurgical recoveries for gold and silver have declined mirroring the fall in RoM head grades. Unit operating costs have increased in $2006^{(H1+Q3)}$ despite an increase in tonnage.

The historical metallurgical recoveries represent the net recovery to refined product (doré) and include recovery to doré at 99.5% for both gold and silver.

7.4.3 Processing LoMp

Table 7.7 below gives the total LoMp processing operating statistics for the Lunnoye Plant. In summary the salient features are:

- The projected increase in plant throughput to 300ktpa in 2007, thereafter remaining to cessation of processing in 2022;
- The general reduction in gold grades from 2007 and silver grades from 2017;
- Increased metallurgical recoveries for both gold and silver and maintaining these recoveries despite reduction in RoM head grades; and
- Nominal reductions in unit operating expenditures.

Table 7.7 Lunnoye Plant: total LoMp processing operating statistics

Statistics	Units	LoMp
Tonnage	(kt)	4,562
Grade	(g/t Au)	1.4
	(g/t Ag)	392.6
Metallurgical Recovery	(% Au)	93.8%
	(% Ag)	90.9%
Operating Expenditure	(US$/t)	41.59

7.5 Khakanjinskoye

Khakanjinskoye comprises a single processing facility, the Khakanjinskoye Plant, which treats RoM ore sourced from open-pit mining operations at Khakanjinskoye Mine. Zinc precipitate produced is transported to the Krasnoyarsk refinery where it is toll processed to produce commercial bullion.

RoM ore is planned to be supplemented by ore from underground mining operations at Khakanjinskoye Mine in 2011 and open-pit mining operations from Yurievskoye Project in 2013.

7.5.1 Processing Facilities

Khakanjinskoye Plant currently processes ore from the open-pit operations which is delivered to the plant by mine trucks. RoM ore is processed using conventional technology with an operating production capacity of 600ktpa. The Khakanjinskoye Plant flowsheet (Figure 7.5) comprises crushing, milling, leaching, and precipitation to produce zinc precipitate with 39.4% metal content.

RoM ore is crushed in a single stage crushing facility where coarse -600mm RoM ore is crushed in a jaw crusher to nominally minus 250mm to feed the SAG mill. The product from the SAG mill circuit feeds ball mill circuits each operating in closed circuit with hydrocyclones. Hydrocyclone overflow gravitates to a leach feed thickener from where the thickened underflow is pumped to a seven stage leach circuit. Cyanide is added and the leached slurry passes to three-stage counter current wash thickener circuit to separate gold bearing solution and tailings waste solids. Overflow solution containing gold from the leach feed thickener and the wash circuit is processed in a Merrill Crowe zinc precipitation circuit to produce a zinc cementate containing gold and silver. Barren solution from the Merrill Crowe plant is used for the wash water. The cementate is shipped off site to the Krasnoyarsk refinery for gold and silver metal extraction. Tailings from the wash circuit are detoxed of cyanide prior to pumping to the tailings dam, a conventional valley-type impoundment. In 2006, a new dry-stacked tailings facility was commissioned to avoid the necessity of raising the impoundment dam as well as to improve recoveries and lower reagent consumption.

7.5.2 Historical processing operating statistics

Table 7.8 below gives the historical processing operating statistics for the Khakanjinskoye Plant.

Table 7.8 Khakanjinskoye Plant: historical processing operating statistics[(1)]

Statistics		2003	2004	2005	2006[(H1+Q3)]
Tonnage	(ktpm)	3	18	32	42
Tonnage	(kt)	32	213	382	375
Grade	(g/t Au)	5.8	12.8	9.9	7.3
	(g/t Ag)	218.0	431.2	388.5	272.4
Metallurgical Recovery	(% Au)	0.0%	90.3%	92.0%	92.8%
	(% Ag)	0.0%	49.4%	49.8%	47.5%
Operating Expenditure	(US$/t)	40.86	25.37	16.22	16.73

(1) Due to start-up operating conditions no metallurgical recoveries are recorded for 2003.

At the Khakanjinskoye Plant, process throughput has steadily increased since 2003 to 42ktpm and is planned to attain its operating capacity of 580ktpm in 2007. Metallurgical recovery for gold has remained reasonable constant since 2004 despite decline RoM head grades. Similar performance is noted for silver metallurgical recoveries. Unit operating expenditures have decreased in accordance with increases in throughput.

The historical metallurgical recoveries represent the net recovery to refined product (doré) and include recovery to doré at 99.5% for both gold and silver.

7.5.3 Processing LoMp

Table 7.9 below gives the forecast operating statistics for the Khakanjinskoye Plant. In summary the salient features are:

- The projected increase in plant throughput to 580ktpa in 2007, thereafter remaining to cessation of processing in 2016;
- Increased metallurgical recoveries for gold to 93.0% and for silver to 51.4% in 2007; and
- Operating expenditures which vary in accordance with production throughput and RoM head grades.

Table 7.9 Khakanjinskoye Plant: total LoMp processing operating statistics

Statistics	Units	LoMp
Tonnage	(kt)	5,412
Grade	(g/t Au)	5.6
	(g/t Ag)	219.3
Metallurgical Recovery	(% Au)	93.1%
	(% Ag)	60.7%
Operating Expenditure	(US$/t)	17.16

7.6 Security

SRK notes that whilst security measures are in place at the Mining Assets, these vary in both management focus and the applied technology. In general, however, management is continuing to refine security measures in particular by increasing the level of sophistication where warranted.

7.7 Clean-up

The quantity of clean-up metal that can be anticipated on closure of metallurgical facilities is uncertain. Reported figures for gold plants have shown an order of magnitude difference, varying between 0.04% and 0.40% of the total metal produced from the metallurgical facility during its life. Factors affecting the quantity of metal that is eventually recovered are plant age, installed treatment route, plant layout and detailed design features, plant operational management and the procedure and efficiency of the plant clean-up. Given limited history of clean-up operations at metallurgical facilities in Russia, SRK has not included allowances for clean-up metals on cessation of processing.

7.8 Metallurgical Summary

Table 7.10 gives the total LoMp metallurgical processing statistics for the Mining Assets. Table 7.11 presents the total LoMp metallurgical processing statistics for RoM tonnage, RoM grade, and metallurgical recovery, recovered metal and unit operating expenditures.

Table 7.10 Mining Assets: Total LoMp processing statistics

Mining Operations	Tonnage (kt)	Grade		MRF		Recovered Metal	
		(g/t Au)	(g/t Ag)	(% Au)	(% Ag)	(koz Au)	(koz Ag)
Dukat Plant	18,606	1.1	542.6	79.6%	85.9%	519	278,676
Vorontsovskoye Plant	21,956	2.8	3.8	83.9%	43.1%	1,651	1,145
—Heap Leach	5,746	1.6	3.1	79.6%	43.7%	241	252
—CIP Circuit	16,210	3.2	4.0	84.6%	46.4%	1,409	966
Lunnoye Plant	4,562	1.4	392.6	93.8%	90.9%	195	52,369
Khakanjinskoye Plant	5,412	5.6	219.3	93.1%	60.7%	899	23,144
Total	**50,537**	**2.3**	**260.3**	**86.0%**	**84.0%**	**3,264**	**355,334**

7.8.1 Key LoMp improved performance issues

The key features associated with the LoMp metallurgical facilities are:

- **At Dukat:** the projected increase in overall processing capacity to 950ktpa in 2008; the projected increase in metallurgical recovery for gold from the current 76.9% to 79.6% in 2007; the projected increase in metallurgical recovery for silver from the current 81% to 86% in 2008; the projected increase in mass pull to concentrate from the current 2.50% to 3.75% in 2007; the assumption that the Lunnoye Plant will continue to provide toll treating services to Dukat following cessation of processing Lunnoye ore;
- **At Vorontsovskoye:**
  - For the Heap Leach facility: the assumption of significant improvements in gold recovery from the current 56.2% to 79.6% in 2007; the assumption of significant improvements in silver recovery from the current 12.2% to 34.5% in 2007;
  - For the CIP facility: the projected increase in RoM throughput to 940ktpa in 2009; the projected increased in metallurgical recovery for gold from the current 77.9% to 83.4% in 2007 and 84.9% in 2009; the projected increase in metallurgical recovery for silver from the current 39.0% to 46.5% in 2007;

Further, the assumption that the current level of operating expenditures are atypical and where exceeding plan can be contained resulting in reduced operating expenditures from the current US$12.09/t to US$8.11/t;

- **At Lunnoye:** the assumption of increased throughput to 300ktpa in 2007; the projected increase in metallurgical recovery for gold from the current 92.5% to 93.8% in 2007; and the projected increase in metallurgical recovery for silver from the current 88.6% to 89.9% in 2007; and
- **At Khakanjinskoye:** the assumption of increased throughput to 580ktpa in 2007; the projected increase in metallurgical recovery for gold from the current 92.8% to 93.0% in 2007; and the projected increase in metallurgical recovery for silver from the current 47.5% to 51.4% in 2007.

Table 7.11 Mining Assets: total LoMp processing statistics

Statistics	Units	LoMp
Tonnage	**(kt)**	**50,537**
Dukat Plant	(kt)	18,606
Vorontsovskoye Plant	(kt)	21,956
—Heap Leach	(kt)	5,746
—CIP Circuit	(kt)	16,210
Lunnoye Plant	(kt)	4,562
Khakanjinskoye Plant	(kt)	5,412
Grade	**(g/t Au)**	**2.3**
Dukat Plant	(g/t Au)	1.1
Vorontsovskoye Plant	(g/t Au)	2.8
—Heap Leach	(g/t Au)	1.6
—CIP Circuit	(g/t Au)	3.2
Lunnoye Plant	(g/t Au)	1.4
Khakanjinskoye Plant	(g/t Au)	5.6
Grade	**(g/t Ag)**	**260.3**
Dukat Plant	(g/t Ag)	542.6
Vorontsovskoye Plant	(g/t Ag)	3.8
—Heap Leach	(g/t Ag)	3.1
—CIP Circuit	(g/t Ag)	4.0
Lunnoye Plant	(g/t Ag)	392.6
Khakanjinskoye Plant	(g/t Ag)	219.3
Metallurgical Recovery	**(% Au)**	**86.0%**
Dukat Plant	(% Au)	79.6%
Vorontsovskoye Plant	(% Au)	83.9%
—Heap Leach	(% Au)	79.6%
—CIP Circuit	(% Au)	84.6%
Lunnoye Plant	(% Au)	93.8%
Khakanjinskoye Plant	(% Au)	93.1%
Metallurgical Recovery	**(% Ag)**	**84.0%**
Dukat Plant	(% Ag)	85.9%
Vorontsovskoye Plant	(% Ag)	43.1%
—Heap Leach	(% Ag)	43.7%
—CIP Circuit	(% Ag)	46.4%
Lunnoye Plant	(% Ag)	90.9%
Khakanjinskoye Plant	(% Ag)	60.7%
Recovered Gold	**(koz Au)**	**3,264**
Dukat Plant	(koz Au)	519
Vorontsovskoye Plant	(koz Au)	1,651
—Heap Leach	(koz Au)	241
—CIP Circuit	(koz Au)	1,409
Lunnoye Plant	(koz Au)	195
Khakanjinskoye Plant	(koz Au)	899
Recovered Silver	**(koz Ag)**	**355,334**
Dukat Plant	(koz Ag)	278,676
Vorontsovskoye Plant	(koz Ag)	1,145
—Heap Leach	(koz Ag)	252
—CIP Circuit	(koz Ag)	966
Lunnoye Plant	(koz Ag)	52,369
Khakanjinskoye Plant	(koz Ag)	23,144
Operating Expenditure	**(US$/t)**	**13.43**
Dukat Plant	(US$/t)	12.63
Vorontsovskoye Plant	(US$/t)	7.34
—Heap Leach	(US$/t)	7.27
—CIP Circuit	(US$/t)	7.37
Lunnoye Plant	(US$/t)	41.59
Khakanjinskoye Plant	(US$/t)	17.16

Figure 7.1 Dukat: schematic flowsheet of metallurgical processing plant

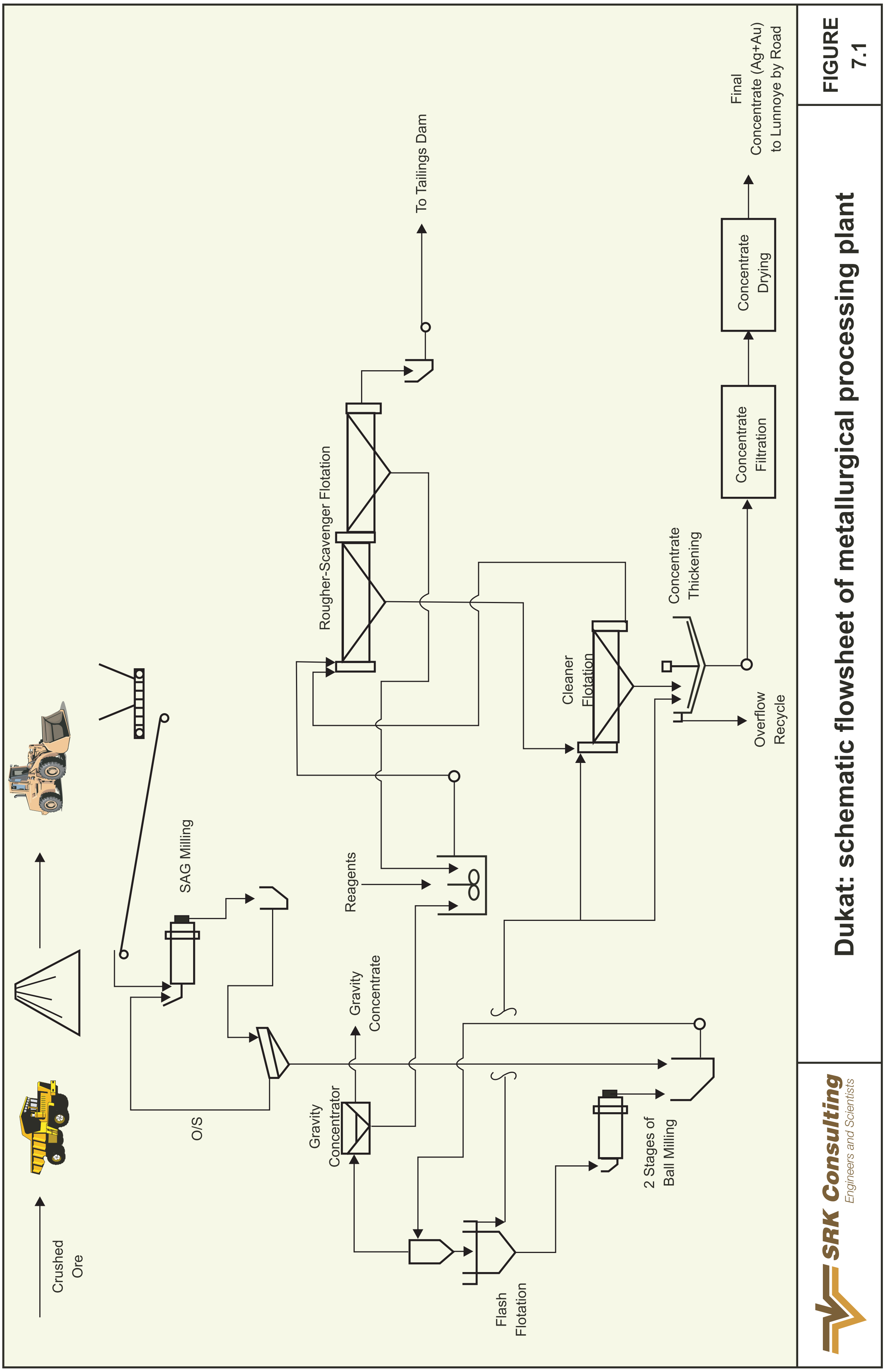


Figure 7.2 Vorontsovskoye: schematic flowsheet of heap leach facility

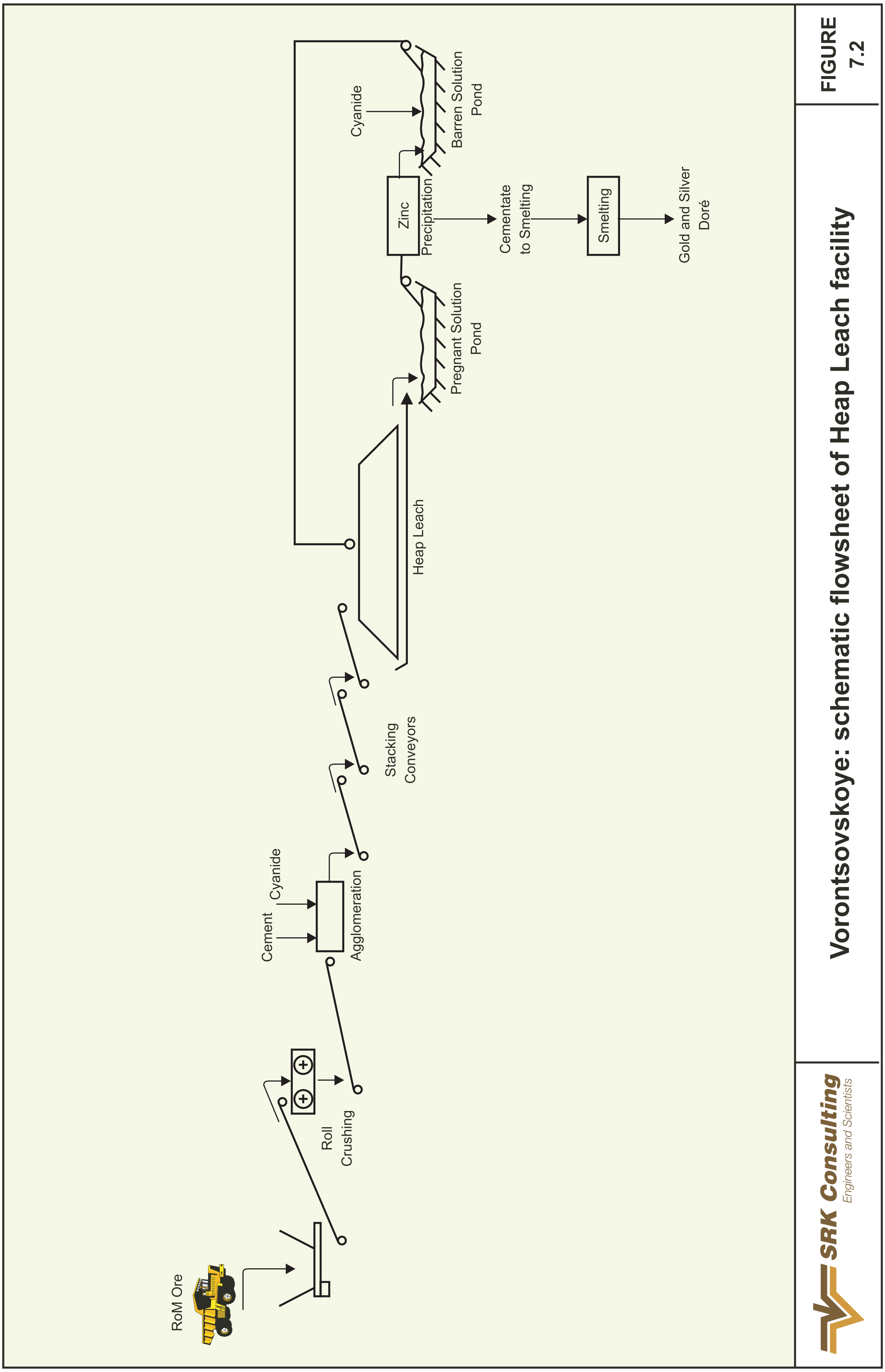


Figure 7.3 Vorontsovskoye: schematic flowsheet of CIP facility

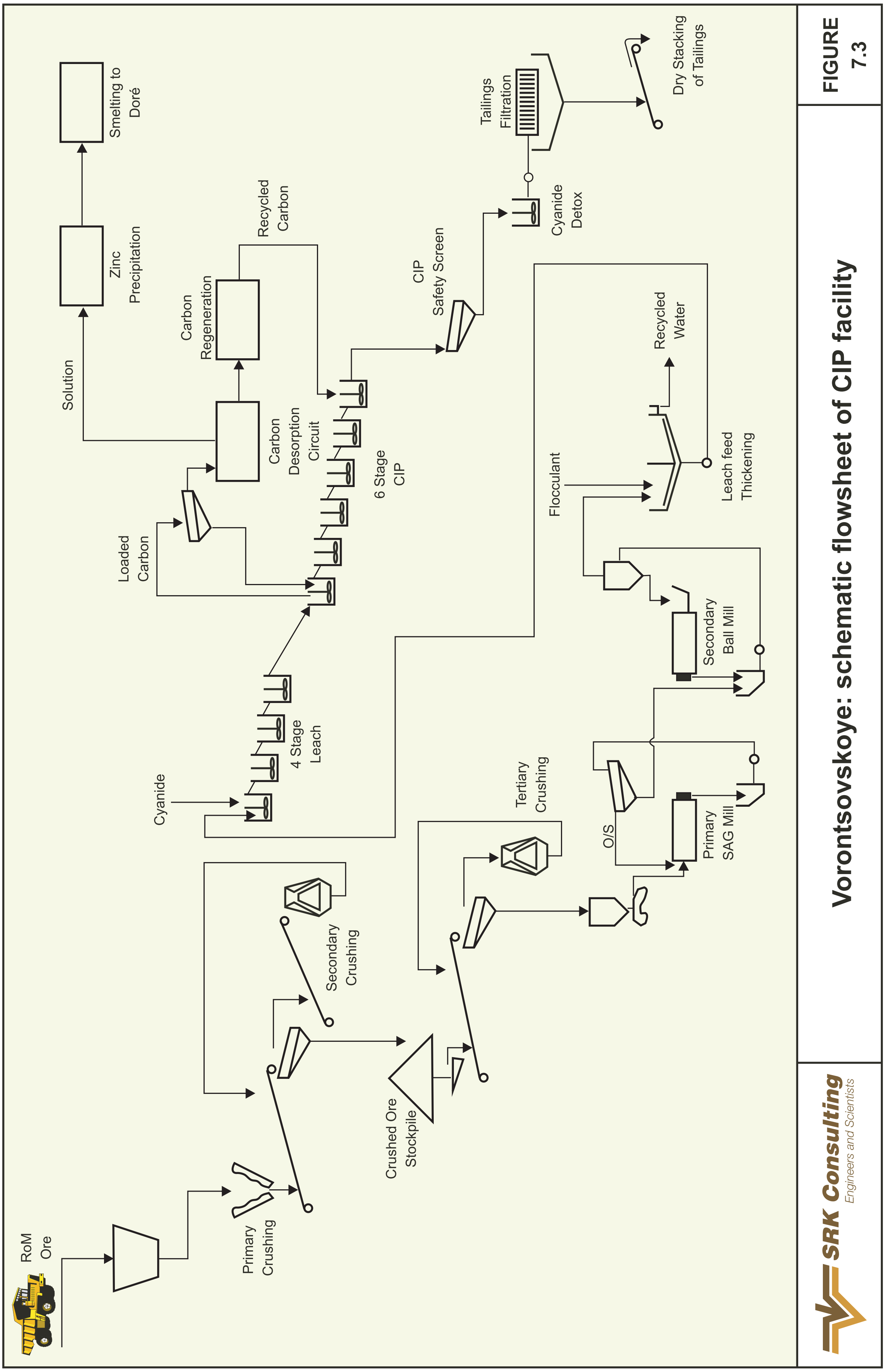


Figure 7.4 Lunnoye: schematic flowsheet of metallurgical processing plant

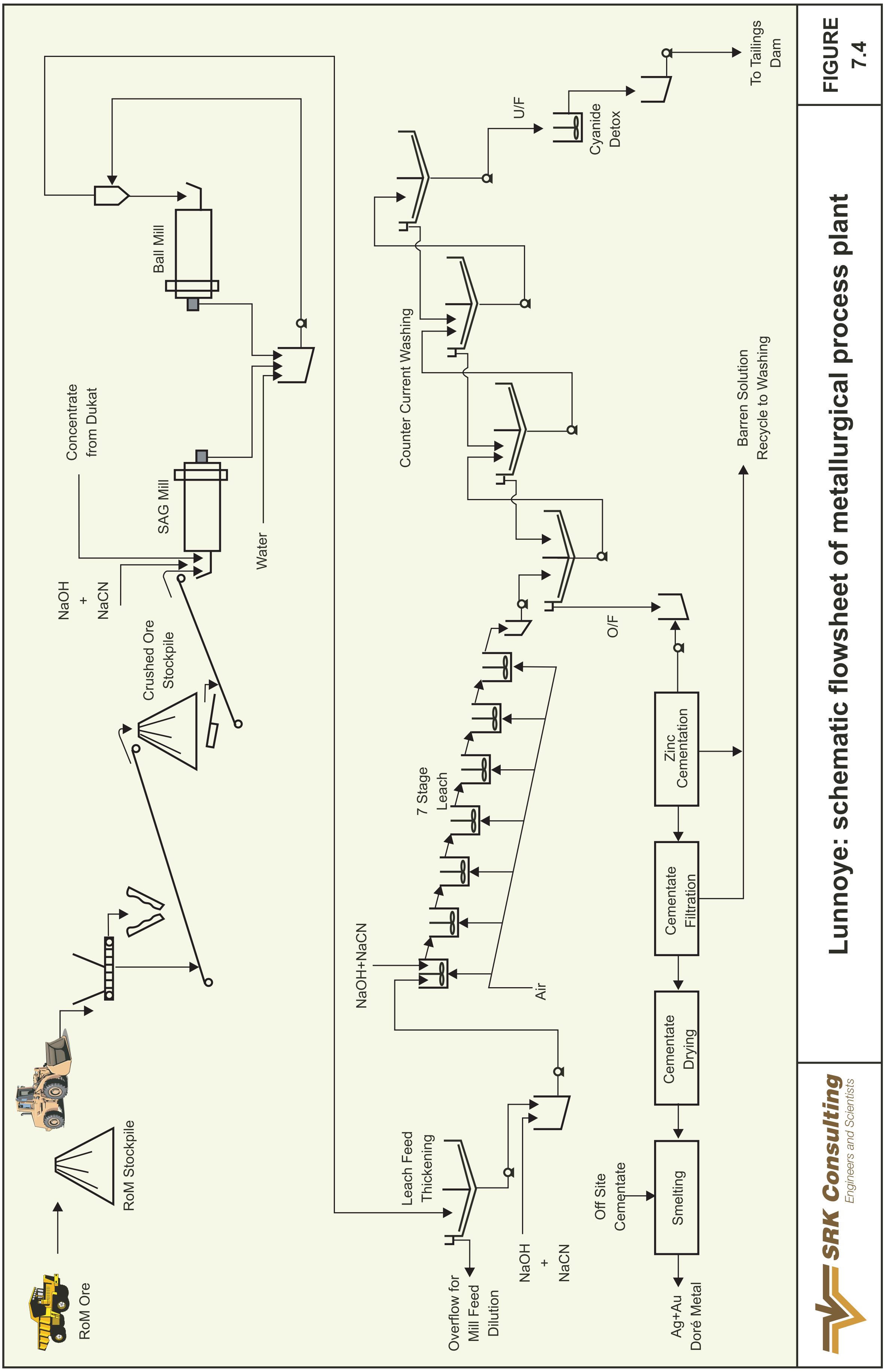
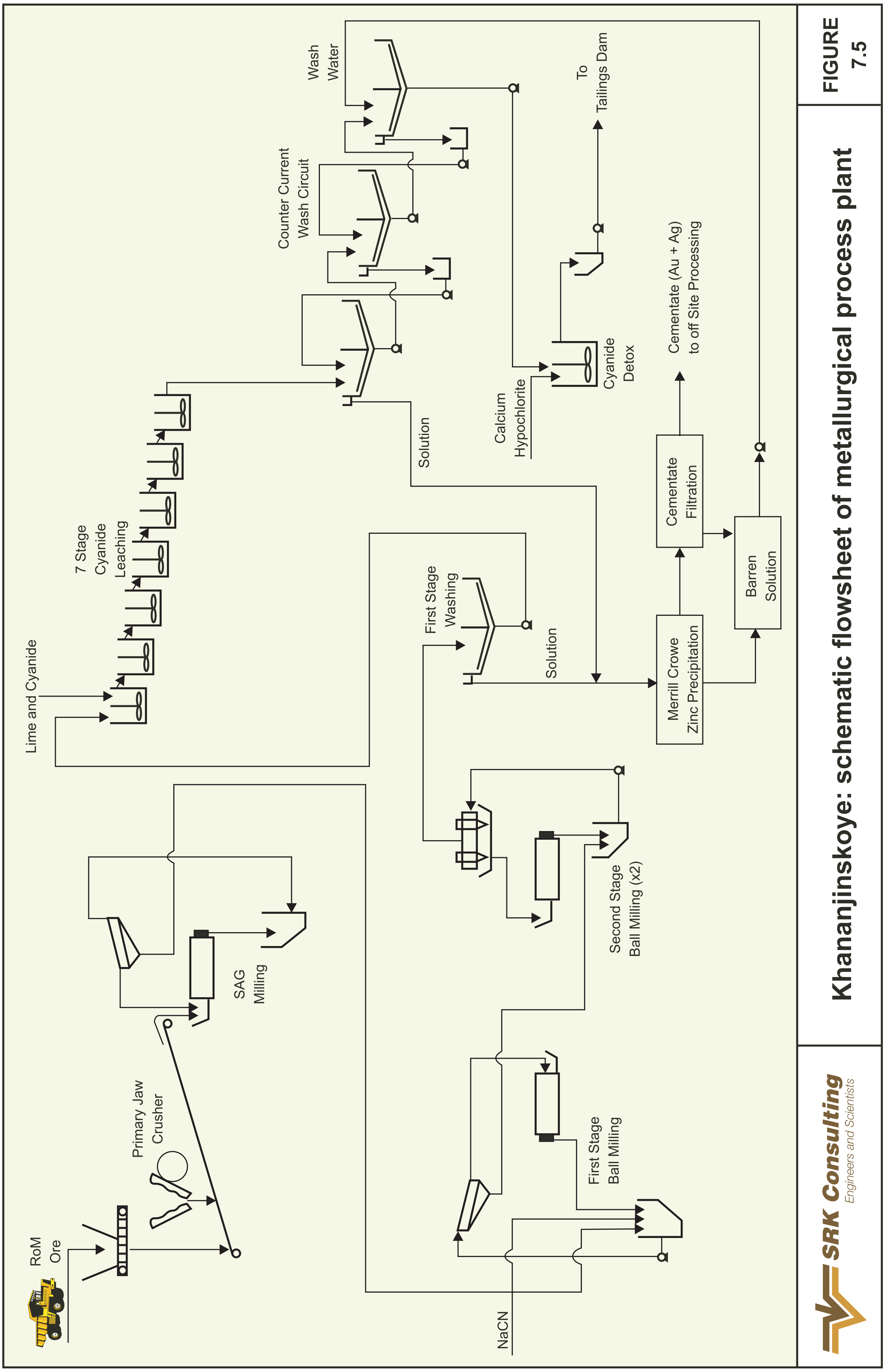


Figure 7.5 Khakanjinskoye: schematic flowsheet of metallurgical processing plant



8 TAILINGS STORAGE FACILITIES

8.1 Introduction

This section includes discussion and comment on the Tailings Storage Facilities ("TSF") which support the Mining Assets. Specifically, detail and comment is focused on the design, geotechnical integrity, remaining capacity and management practices governing the TSF for the execution of the LoMp as presented herein.

8.2 Mining Assets

The remaining capacities of the various TSF are included in Table 8.1, as is the LoMp tonnages to be placed and the necessary additional expenditures required to maintain and where appropriate increase current deposition of tailings from the various processing facilities.

8.2.1 Dukat

The Dukat Plant TSF complex comprises three tailings dams: No. 1 which has reached full capacity and is closed; No. 2 which is currently operational; and No. 3 which has recently become operational.

Tailings arising from the Dukat Plant is transported in slurry form through a pipeline and discharged into the lined impoundments by spigotting. The impoundments are constructed next to each other in an upstream manner, commencing with a starter embankment and building subsequent raises.

The present rate of rise ("RoR") of TSF No. 2 at 69ktpm is 1.54mpa which will increase to 1.79mpa in 2013. TSF No. 3 will be operated to ensure that the long term RoR will be maintained at less than 1.5mpa.

The LoMp for Dukat requires a total placement capacity of approximately 17.9Mt of material. The total remaining capacity of No. 2 is estimated at 7.4Mt. TSF No. 3 inclusive of proposed expansions will have a capacity of 11.4Mt at a capital cost of US$3.2m.

8.2.2 Vorontsovskoye

Vorontsovskoye processes through a Heap Leach Facility and a CIP Facility.

The Heap Leach Facility is lined and is extended by incremental expansions, which is expected to be complete by Q4 2008. By 1 October 2006 some 3.2Mt of material was deposited and construction of the additional expansions will facilitate deposition of an additional 5.8Mt which will be complete by 2015.

Tailings from the CIP Facility is deposited as dry tailings on an unlined impoundment. Adequate area is available to continue deposition in accordance with the LoMp. By 1 October 2006, some 0.6Mt of material was deposited and an additional 16.2Mt will be deposited by 2024.

8.2.3 Lunnoye

The Lunnoye Plant TSF complex comprises a single tailings dam, No.1. Tailings arising from the Lunnoye Plant is transported in slurry-form through a pipeline and discharged into a single-compartment unlined valley-fill impoundment by spigotting. The supernatant water is decanted from the pond using barge-mounted pumps. Drainage from tailings is collected at a drainage collection structure and pumped back into the impoundment. Storm water diversion channels were constructed around the TSF.

The embankment is comprised of a 22m high starter wall followed by raises constructed in downstream manner. The present RoR of TSF No. 1 at 28ktpm is 1.00mpa which is not planned to be exceeded over the LoMp.

The LoMp for Lunnoye requires a total placement capacity of approximately 5.3Mt of material. The total remaining capacity of No. 1 as at 1 October 2006 is estimated at 5.3Mt which is adequate to meet the requirements of the current LoMp.

8.2.4 Khakanjinskoye

The Khakanjinskoye Plant operates a single TSF: No. 1, which is a single-compartment lined (HDPE geomembrane) valley-fill impoundment. Tailings arising from the Khakanjinskoye Plant are transported in slurry form through a pipeline and discharged into the impoundment by spigotting.

The TSF comprises a main starter embankment and two smaller containment embankments. The starter embankment is 17m high and the wall is raised using downstream construction. Drainage from tailings is collected at a drainage collection structure and pumped back into the impoundment. Storm water diversion channels were constructed around the TSF. The present RoR of TSF No. 1 at 48ktpa is 1.5mpa, which is not planned to be exceeded through the LoMp.

In 2006, a new dry-stacked TSF was commissioned to avoid the necessity of raising the impoundment dam as well as to improve recoveries and lower reagent consumption.

The LoMp for Khakanjinskoye requires a total placement capacity of approximately 5.4Mt of material. The total remaining capacity of No. 1 as at 1 October 2006 is estimated at 5.4Mt which is adequate to meet the requirements of the current LoMp.

8.3 TSF Summary

Table 8.1 below gives the salient features of the LoMp statistics for the TSFs. No new additional TSF are required other than for Dukat Mine where TSF No. 2 is nearing full capacity and, TSF No. 3 is now operational. Additional capital expenditure is required to expand TSF No. 3 and is estimated at US$3.2m and has been included for in the FM for Dukat Mine.

Table 8.1 Mining Assets: Assessment of TSF Requirements

Mining Assets	Placed to 1 October (kt)	LoM Placement (kt)	Capacity (kt)
Dukat Plant	**3,509**	**17,911**	**21,420**
TSF No. 2	3,509	6,511	10,020
TSF No. 3	0	11,400	11,400
Vorontsovskoye Plant	**3,831**	**21,956**	**25,787**
Heap Leach	3,198	5,746	8,944
Dry Tails	633	16,210	16,843
Lunnoye Plant	1,708	5,258	6,965
Khakanjinskoye Plant	1,837	5,412	7,249

9 ENGINEERING INFRASTRUCTURE, OVERHEADS AND CAPITAL EXPENDITURE

9.1 Introduction

This section includes discussion and comment on the infrastructure and related aspects of the Mining Assets. Specifically, detail and comment is focused on the existing on-mine infrastructure, overheads and capital expenditure programmes necessary for the execution of the LoMp.

9.2 Mining Operations—Access, Power, Water and Engineering Infrastructure

The following section includes brief discussion on the access, power and water supply and associated infrastructure which services the Mining Assets.

9.2.1 Dukat

Dukat is located approximately 40 km north of the town of Omsukchan in the Magadan region of the Russian Federation. Omsukchan is located approximately 600km north of the city of Magadan, and can be accessed from Magadan via unpaved roads, ongoing improvements to which are being made by regional authorities.

Fuel, consumables and spares are delivered to the all-season port of Magadan (650km from Dukat) by regular freight carriers from the Russian ports of Vanino and Nakhodka and from the South Korean port of Pusan. Principal access to Magadan is by sea as there is no railway in the Magadan region and road transport is less reliable and more expensive. The freight is carried to the mines from Magadan by contractors' trucks via unpaved roads, which are accessible year round. There are heated hangars for spares, as well as open warehouses for storage of bulk consumables. Dukat has a relatively small fuel depot as it uses less diesel fuel and there is less likelihood of roads to Dukat being blocked during the winter.

Dukat has access to infrastructure and services available from the town of Omsukchan. Power is supplied from the state-owned grid adjacent to the mine and the processing plant via power lines. Electricity at Dukat is supplied by Magadanenergo, a regional subsidiary of the state-owned electric power monopoly, RAO UES. Magadanenergo is not currently subject to the Russian energy sector reforms, and the

Company does not currently expect that the tariffs and services offered by Magadanenergo will be affected by the planned restructuring of RAO UES. The Company has diesel generators to provide stand-by power to supply the mine, the smelter and other facilities (except the processing plant) in the event of a power supply disruption. Water is provided to the mine from the Omsukchan municipal supply via pipelines to the plant site.

There is a certified explosives storage facility at Dukat. The Company has in-house maintenance teams and service contracts with its major equipment providers, including Atlas Copco, Komatsu, Caterpillar and Wartsila, under which employees of such providers are permanently based at the Company's mines.

9.2.2 Vorontsovskoye

Vorontsovskoye is located approximately 450km north of the city of Ekaterinburg and 20km south of the town of Krasnoturinsk in the Sverdlovsk region of the Russian Federation. There is good access from Ekaterinburg along a federal highway.

Electrical power at Vorontsovskoye is provided by the state electricity grid via power lines from nearby towns of Krasnoturinsk and Serov. There is no standby power generation on site. The power supply is currently sufficient to support the milling carbon-in-pulp plant expansion, and the low cost of grid power makes it uneconomical to produce energy on-site from gas or coal. Vorontsovskoye purchases electricity from Sverdlovskenergosbyt, a regional subsidiary of RAO UES, which sells energy at a combination of regional tariffs and free market prices. The Company expects that Vorontsovskoye will continue to purchase energy at regulated tariffs as its power consumption and energy infrastructure are insufficient to purchase energy wholesale at free market prices. Water is supplied from local boreholes. Heat is supplied by gas-operated boilers from a major gas pipeline that runs within 2.5km of the site.

Transportation and logistical access to Vorontsovskoye is provided by a railway connection with a Company-owned spur located 15km from the site, as well as a paved highway located 8km from the mine. Materials and spare parts are delivered by rail or directly from suppliers by truck. Fuel is delivered from various suppliers' fuel depots which are located 20km to 30km from the mine. There is a certified cyanide storage facility at Vorontsovskoye. Explosives are delivered by truck from the local centralised warehouse.

9.2.3 Lunnoye

Lunnoye is located in the Magadan region, with the nearest town being Omsukchan. Lunnoye is located approximately 150km from Omsukchan via an unpaved road, and the satellite deposit of Arylakh is located approximately 20km from Lunnoye.

Due to the remote location of the mine, power is generated on site using diesel generators (four operating plus one standby). Diesel is transported from Magadan, and a three-month supply of fuel is available on site. Fuel represents a relatively higher proportion of costs at Lunnoye than at other mines due to its remote location. Water is supplied from local boreholes.

The Lunnoye deposit can be accessed by all-year roads from the Dukat operation, and spares, consumables and materials are delivered at regular intervals to the site. Emergency spares can be accessed from Magadan and take approximately two days to arrive at site. Lunnoye has a 3,000m^3 fuel storage depot to provide for a temporary fuel supply in the event of transport disruption due to inclement weather. There is also a certified cyanide storage facility and certified explosives storage facility at Lunnoye. The Company's principal cyanide supplier is Hyosung.

9.2.4 Khakanjinskoye

Khakanjinskoye is located in the Khabarovsk Territory, approximately 1,100km north of Khabarovsk and 480km west of the city of Magadan. The only access to Khakanjinskoye from Khabarovsk or Magadan is by air; however, the port of Okhotsk lies 100km to the south and can be accessed by road. The Yurievskoye deposit, located approximately 60km from Khakanjinskoye, will be mined as a satellite operation.

Due to the remote location of Khakanjinskoye, there is no access to the state electricity grid and as a result electric power is generated on site using six diesel generators (five operating, plus one standby). Diesel fuel is transported to the site from Okhotsk. Waste heat from the boilers is used to provide heat for buildings at the mine site. Water is supplied from local boreholes. Fuel represents a relatively higher proportion of costs at Khakanjinskoye than at other mines due to its remote location and its dependence on diesel fuel.

Fuel, consumables, and spares are delivered to Khakanjinskoye via the seasonal port of Okhotsk, 120km from the site, which is open from late May until the early November. Fuel and bulk consumables are shipped to Okhotsk from the seaports of Nakhodka, Vladivostok and Pusan. Spares and materials from the river port of Khabarovsk are jointly shipped to Okhotsk with cargo from the sea port of Nikolaevsk. Upon arrival at Okhotsk, cargo is transported to the mine by company-owned truck along an all-year unpaved road. During winter, when the port is not accessible by sea, emergency spares are delivered to the mine by air from the towns of Khabarovsk or Magadan. There are hangars and open warehouses at both Okhotsk and the Khakanjinskoye mine site. The Company owns a fuel depot at Okhotsk with a storage capacity of up to 15,000m^3, and a further on-site depot with a storage capacity of up to 2,000m^3. There is a specialised certified cyanide storage at the mine site as well as two certified explosives storage facilities en route from Okhotsk to the mine. Cyanide at Khakanjinskoye is principally supplied by Hyosung.

9.3 Overhead Operating Expenditure

The following section includes historical and forecasts statistics in respect of the overhead operating expenditures associated with the Mining Assets. Overheads include costs associated with the following items: local heat generation, transportation (excluding mining transportation), laboratories, administration, power and water supply maintenance, communications maintenance, quality assurance, purchasing and warehousing, lodging and offices.

9.3.1 Historical operating statistics

Table 9.1 gives the historical overhead operating expenditure for the Mining Assets.

Table 9.1 Mining Assets: Historical overhead operating expenditure

Mining Assets	Units	2003	2004	2005	2006(H1+Q3)
Dukat	(US$m)	2.8	6.0	9.2	6.2
Vorontsovskoye	(US$m)	1.4	4.5	7.0	4.0
Lunnoye	(US$m)	2.5	4.5	9.8	4.9
Khakanjinskoye	(US$m)	1.9	4.7	9.8	6.9
Head Office	(US$m)	3.3	3.4	4.7	5.1
Total	**(US$m)**	**11.9**	**23.0**	**40.4**	**27.1**
Overhead Unit Rates					
Dukat	(US$/t)	5.09	7.85	10.57	9.62
Vorontsovskoye	(US$/t)	1.68	4.98	6.83	4.18
Lunnoye	(US$/t)	10.30	17.61	38.00	24.29
Khakanjinskoye	(US$/t)	58.95	21.86	25.73	18.44
Head Office	(US$/t)	2.00	1.57	1.85	2.33
Total	**(US$/t)**	**7.20**	**10.76**	**15.99**	**12.41**

9.3.2 LoMp overhead operating expenditure

Table 9.2 gives the total overhead operating expenditures for the Mining Assets for the period represented by the LoMp.

Table 9.2 Mining Assets: forecast overhead operating expenditures

Overhead Operating Expenditures	Units	LoMp
Dukat	(US$m)	140.3
Vorontsovskoye	(US$m)	64.9
Lunnoye	(US$m)	97.7
Khakanjinskoye	(US$m)	69.4
Head Office	(US$m)	87.9
Total	**(US$m)**	**460.2**

Overhead Unit Rates	LoMp	
Dukat	(US$/t)	7.54
Vorontsovskoye	(US$/t)	2.96
Lunnoye	(US$/t)	21.41
Khakanjinskoye	(US$/t)	12.82
Head Office	(US$/t)	1.74
Total	**(US$/t)**	**9.11**

9.4 Capital Expenditure

The capital expenditure programmes for the Mining Operations incorporate both project capital and ongoing capital. SRK has reviewed these estimates and consider them appropriate to support the LoMp as reported herein. The accuracy of these estimates are of the order of ±15% for the major capital projects, as expected of feasibility level studies and for the provision of ongoing capital SRK consider these to be in the order of 25%. Where appropriate, the estimates have been modified by SRK to include any additional capital requirements as identified in Section 6.0 through Section 8.0 of this MER. SRK notes that all capital estimates are exclusive of finance charges and VAT.

9.4.1 Dukat

The total capital expenditure requirement for Dukat is US$69.8m with some US$32.7m to be expended from 1 October 2006 to 31 December 2011 inclusive. The contributions to the total capital requirement are:

- US$4.5m for Development Projects: including US$0.1m for underground operations, US$3.2m for TSF expansions, and US$1.3m for improving performance at the Dukat Plant;
- US$36.8m for Equipment Replacement: including US$33.3m for underground operations and US$3.5m for open-pit operations;
- US$18.8m for Mining Capital Development; and
- US$9.7m for other capital expenditures.

9.4.2 Vorontsovskoye

The total capital expenditure requirement for Vorontsovskoye is US$34.1m with some US$22.3m to be expended from 1 October 2006 to 31 December 2011 inclusive. The contributions to the total capital requirement are:

- US$7.0m for Development Projects all of which is associated with the modifications to the Vorontsovskoye CIP plant and to be expended by 31 December 2007;
- US$15.6m for Equipment Replacement at the open-pits; and
- US$9.7m for other capital expenditures.

9.4.3 Lunnoye

The total capital expenditure requirement for Lunnoye is US$37.5m with some US$20.6m to be expended from 1 October 2006 to 31 December 2011 inclusive. The contributions to the total capital requirement are:

- US$8.4m for Development Projects: including US$5.4m for underground operations and US$2.4m for tailings dam expansions;
- US$14.4m for Equipment Replacement: including US$9.9m for underground operations and US$4.3m for open-pit operations;
- US$3.3m for Mining Capital Development; and
- US$11.4m for other capital expenditures.

9.4.4 Khakanjinskoye

The total capital expenditure requirement for Khakanjinskoye is US$24.5m with some US$17.8m to be expended from 1 October 2006 to 31 December 2011 inclusive. The contributions to the total capital requirement are:

- US$3.0m for Development Projects: including US$2.6m for underground operations and US$0.4m for TSF expansions and Khakanjinskoye Plant modifications;
- US$9.4m for Equipment Replacement: including US$4.3m for underground operations and US$5.1m for open-pit operations;
- US$2.4m for Mining Capital Development; and
- US$10.7m for other capital expenditures.

9.4.5 Head Office

No capital expenditure requirements are forecast for the Company's Head Office operations.

9.4.6 Summary

The total capital expenditure as projected for the Mining Assets is forecast at US$166.9m, of which US$93.4m is assumed to be expended from 1 October 2006 to 31 December 2011 inclusive. Table 9.3 summarises the capital expenditure for each of the Mining Operations separately, with breakdowns for: development projects; equipment replacement, mining capital development and other capital expenditures.

Table 9.3 Mining Assets: Summary capital expenditure

Mining Assets	Development Projects	Equipment Replacement	Mining Capital Development	Other Capital Expenditures	Total
	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)
Dukat	4.5	36.8	18.8	9.7	69.8
Vorontsovskoye	7.0	15.6	0.0	11.5	34.1
Lunnoye	8.4	14.4	3.3	11.4	37.5
Khakanjinskoye	3.0	9.4	2.4	10.7	25.5
Total	**22.9**	**76.1**	**24.5**	**43.3**	**166.9**

10 HUMAN RESOURCES

10.1 Introduction

This section includes discussion and comment on the human resources relates aspects associated with the Mining Assets. Specifically, information as provided by the Company is included on the following: current legislation; the current board, executive and operational management structures; recruitment, training, productivity initiatives and remuneration policies; industrial relations and terminal benefits.

10.2 Legislation

Labour matters in Russia are primarily governed by the Labour Code (the "Labour Code"). In addition to this core legislation, relationships between employers and employees are regulated by various federal laws.

10.2.1 Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts (for example, this applies to the contracts with top managers). An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- Liquidation of the enterprise or downsizing of staff;
- Failure of the employee to comply with the position's requirements due to incompetence or health problems;
- Systematic failure of the employee to fulfil his or her duties;
- Any single gross violation by the employee of his or her duties;
- Provision by the employee of false documents or misleading information prior to entry into the employment contract; and
- Other grounds provided in the Labour Code or other federal laws.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18, or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother.

Any termination by an employer of an employment contract that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for claimed moral damage (which amount should be approved by the court).

10.2.2 Work time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from 6 to 36 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. The retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, however, is 50 years and 45 years respectively, and for men who have worked in underground mines for at least 12.5 years and women who have worked in underground mines for at least 10 years is 55 and 50 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years may also retire, regardless of age.

10.2.3 Salary

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUB1,100 from 1 May 2006 (approximately US$40). Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

10.2.4 Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

10.3 Board, Executive and Management Structure

The Company's Board comprises 7 directors of which 2 are independent non-executive directors. The Board is supported by an Executive Committee; Audit Committee; Remuneration and Nomination Committee.

The Company's management structure includes 14 senior management positions: Chief Executive Officer; Chief Operating Officer; Chief Financial Officer; and representatives for: Polymetal Engineering, Legal Department, General Matters, Business Development, Trading, Human Resources and Public Relations, Capital Markets, Silver Territory and Magadan Silver, Northern Urals Gold, and Okhotsk Mining and Geological Company.

The Company's wholly-owned in-house research and engineering subsidiary, Polymetal Engineering, is one of the largest in-house engineering operations in the Russian mining industry, employing approximately 100 engineers. Polymetal Engineering has completed a number of projects for outside clients, including the design and construction of mining projects for leading Russian mining companies producing diamonds, iron ore, tin and copper (such as Alrosa, Mikhailovsky GOK, UGMK and others). The Company invests significant resources in research and development activities and currently possesses 22 patents for inventions and proprietary processes.

10.4 Training and Development, and Remuneration Policies

As at 1 October 2006, the Company has 4,797 employees 864 of which are employed at Head Office and the companies exploration activities and regional service centres. Of the 3,933 employees at the mines, 39% are employed in direct mining operations, 19% are employed in direct processing operations and 42% are employed in servicing the mining and processing operations.

Because of the remote locations of Lunnoye and Khakanjinskoye, staff at those mines work on a fly-in, fly-out system (meaning several weeks at a time of working at the deposit and living in the Company's settlements).

Because the market for skilled workers is highly competitive, the Company concentrates on attracting and training young specialists, including offering on-the-job training and personnel rotation. More than half of the Company's employees are younger than 40, with 26% aged between 20 and 30 years of age. The Company believes that it is important to focus on consistently upgrading the skills of its workforce and expanding its workers' spheres of responsibility.

Training occurs both on an individual basis as well as in courses, depending on licensing requirements. Such programmes include the recent launch of a corporate education centre at its St Petersburg headquarters and numerous out-sourced education and training opportunities. Each year, 20% of the Company's employees pass professional preparation and training courses. During the first nine months of 2006, approximately 500 employees participated in at least one training programme. In addition, the Company launched a programme in 2005 to recognise and reward its top specialists. During 2005 and the first nine months of 2006, more than 400 employees have been awarded through this programme—which provides cash bonuses and non-monetary benefits. The Company has established several programmes for its employees, including comprehensive training and re-education projects, health and safety programmes, programmes for employees' children and other benefits.

In 2005, the Company introduced an internship programme geared towards encouraging highly-skilled university students to consider careers in metals and mining. The Company participated closely with leading educational institutions in St Petersburg, Ekaterinburg, Irkutsk, Tomsk, Seversk and Magadan. In 2005, 140 students from universities and colleges participated in the programme, and 103 students completed internships at the Company's production sites. During 2005, 29 university graduates accepted full-time positions at the Company, and an additional 33 people signed contracts to begin the following year.

The Company focuses on recruiting talented newly qualified young geologists, mining engineers and processing engineers from regional universities through a partnership with technical universities in Irkutsk, Tomsk and Magnitogorsk. In 2006, the Company offered internship positions to approximately 200 students, and expects approximately 40% of these to return as full time employees upon graduation.

Many of Company's employees are highly skilled specialists and leading experts in their fields. As of 30 September 2006, the Company employed six PhDs in chemistry, 10 PhDs in technical sciences, four PhDs in economics, four PhDs in geology-mineralogy and one PhD in physical mathematics, as well as over 100 engineers who have completed post-graduate degrees. More than 40% of the Company's workforce has received higher education or professional degrees.

The salaries of the Company's employees are higher than typical salaries in the respective regions in which the Company operates. The Company makes mandatory social security contributions for its employees but does not maintain any voluntary pension fund and has no agreement with its employees to provide pension or retirement benefits. Once in every two years, the Company reimburses the expenses of travel within Russia for mine employees based at Dukat Mine, Lunnoye Mine and Khakanjinskoye Mine.

10.5 Industrial Relations

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia.

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended, or the Trade Union Law.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- Negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- Monitor compliance with labour laws, collective contracts and other agreements;
- Access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- Represent their members and other employees in individual and collective labour disputes with management;
- Participate in strikes;
- Monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs; and
- Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

Although the Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability, no specific sanctions for these violations are set forth in Russian legislation.

In 2005, a trade union organisation was created at Silver Territory and Magadan Silver. As of 1 October 2006, approximately 78 employees of Magadan Silver were members of this organisation. A commission has been set up for the preparation of a collective bargaining agreement with the employees of Silver Territory and Magadan Silver. The trade union organisation will take part in the preparation and negotiation of this agreement. There are no other official trade union organisations within the Group, and the Company does not currently have any collective bargaining agreements with its employees. All employee-employer relationships within the Group are conducted under relevant labour laws of the Russian Federation. The Company believes that it is currently in material compliance with these laws. The Company has not to date experienced any strikes, work stoppages, collective labour disputes or actions that have had a material effect on the operations of its business, and the Company believes that it has a good relationship with its employees.

10.6 Productivity Assumptions

The LoMp as developed by the company does not incorporate any substantive productivity improvement assumptions save for those assets which are in the process of ramping up production to their rated capacities.

The productivity statistics as presented in the following tables are merely given for comparative purposes in order to assess the Total Employees Costed ("TEC") efficiencies between operations. Throughout the course of the various LoMp there will be significant changes due to closure of operations and production downscaling.

10.6.1 Historical and Assumed LoMp workforce requirements

SRK has been informed that the organisation structures currently in place together with the operational management will remain until such time as planned closures occur; following which, downsizing of the labour force will be assessed.

Table 10.1 below presents the historical and current workforce deployment for the Mining Assets.

Table 10.1 Mining Assets: Historical and current workforce deployment

Mining Assets	Units	2003	2004	2005	2006(H1+Q3)
Dukat	(No)	1,104	1,077	1,089	1,089
Vorontsovskoye	(No)	860	867	853	1,019
Lunnoye	(No)	770	783	790	837
Khakanjinskoye	(No)	1,088	944	957	967
Head Office	(No)	851	851	864	864
Total	**(No)**	**4,673**	**4,522**	**4,553**	**4,776**

10.6.2 Historical and Projected LoMp productivity statistics

Table 10.2 below gives the historical LoMp productivity statistics for the Mining Assets. The statistics measured include tonnes milled per TEC per month (t/TEC/month) and grams of gold equivalent per TEC per month (g Au Eq/TEC/month). SRK notes, however, that the latter statistic will be influenced by the relative value of gold and silver.

Table 10.2 Mining Assets: historical productivity statistics

Mining Assets		2003	2004	2005	2006(H1+Q3)
Dukat	(t/TEC/month)	83	59	66	65
Vorontsovskoye	(t/TEC/month)	160	87	100	106
Lunnoye	(t/TEC/month)	53	27	27	27
Khakanjinskoye	(t/TEC/month)	5	19	33	43
Dukat	(g Au Eq/TEC/month)	425	637	543	489
Vorontsovskoye	(g Au Eq/TEC/month)	558	233	228	244
Lunnoye	(g Au Eq/TEC/month)	358	281	262	210
Khakanjinskoye	(g Au Eq/TEC/month)	0	281	414	398

10.7 Terminal Benefits

The total terminal benefits liability ("TBL") for the Mining Assets has been determined by consideration of the TBL resulting from the various workforce requirements of the various LoMp profiles. The amounts stated are based on the assumption that the total cost per employee will approximate three months of the average Labour costs per employee and that no substantive allowance for length of service is applicable.

Table 10.3 Mining Assets: Terminal Benefits Liability

Mining Assets	Units	Terminal Benefits Liability
Dukat	(US$m)	6.5
Vorontsovskoye	(US$m)	1.9
Lunnoye	(US$m)	4.7
Khakanjinskoye	(US$m)	3.5
Head Office	(US$m)	0.3
Total	**(US$m)**	**17.0**

11 OCCUPATIONAL HEALTH AND SAFETY

11.1 Introduction

This section includes discussion and comment on the occupational health and safety ("OHAS") related aspects associated with the Mining Assets. Where available current and historical occupational health san safety statistics are presented with discussion on the more significant measures in progress to deal with identified risks, including risk management and occupational health and safety measures.

The Company seeks to follow best practice within the applicable regulatory environments in which it operates. In respect of international conventions, specifically those aligned with World Bank, policies and Guidelines, International Finance Corporation Operational Policies, International Labour organisations and OHSAS 18001, the Company continually reviews its policies and strategies and will seek to realign with international best practice where deemed appropriate.

11.2 Legislation

The legal basis for OHAS in the Russian mining industry is provided by the 1997 Federal Law on safety of dangerous industrial units (as amended), which defines a series of operations considered to be dangerous; these include mining, ore processing and the storage and use of explosive materials. The design and intended method of working for these operations must be examined by the State Industrial Safety review process. The Law also requires the operator to employ appropriately skilled personnel, provide adequate training, prevent the access of non-authorised people to the area of operation and hold "risk insurance".

Detailed procedural measures and the basis for establishing specific safety standards are provided by the Labour Code (2001). A series of individual minimum safety standards are provided in a series of normative documents (known as GOSTs).

Other relevant legislation includes the 1999 Federal Law on the sanitary epidemiological wellbeing of the population (as amended), which provides the basis for the establishment of "sanitary protection zones" and regulates issues such as ambient air quality, noise, vibration and other hazards associated with the operation that may impact upon local populations.

The 1997 Federal Law on the safety of hydrotechnical facilities (as amended) regulates the design and operation of tailings facilities and water-storage dams. The law requires such facilities to have been issued with a "declaration of industrial safety" prior to use and requires the operator to undertake regular monitoring and inspections and to develop emergency response procedures, all of which must be approved by the regulatory authority.

In principle, Russian regulation and management practices in OHAS are broadly compatible with the approach adopted internationally. The regulatory authorities promote the development of, and issue approvals for safe working practices, which are then incorporated into the project design; appropriate training is scheduled for each employee, emergency response procedures are formulated and a systematic programme of inspections is developed to monitor compliance; accidents are recorded and investigated and remedial measures are implemented. Poor application and enforcement, however, combined with an adverse "safety culture" within the country as a whole, often results in actual practices on site that do not conform in all areas with the requirements, especially with respect to:

- Training;
- Provision and use of safety equipment, including personal protective equipment;
- Enforcement of safe working practices; and
- Safety inspections;

Industrial accidents in Russia are categorised as either "light", "serious" or "fatal", a "serious" accident being defined by the medical nature of the trauma; a number of specific traumas, especially those likely to result in a long-term reduction in "working ability", being considered "serious", all other traumas were by default considered as "light". Historically, a "light" trauma could become "serious" if the victim was off work for a period of more than 60 days, although this threshold was removed in January 2005. From 2005, an accident involving a trauma not specifically listed in the legislation and verified as such by a qualified doctor is considered "light" regardless of the working time lost.

Accidents involving more than one person ("group accidents") are recorded separately. Incidents that do not result in a medical trauma requiring treatment, however, are not usually recorded, unless there is an associated disruption to production, in which case the incident may be recorded under regulations covering breaks in production ("industrial safety") rather than occupational health and safety.

All serious and fatal accidents are investigated by a state appointed committee (or single representative) to determine the cause and identify appropriate remedial action. The reports contain details of each accident (date, time, location, branch, area of working, personal details of worker, type of accident, job description, details of accident, name of reporting person etc.). Investigations routinely identify poor working practices, failure to follow instructions and "personal carelessness" as the causes. Additional training is usually proposed. Compensation is payable to the victims of accidents (or their families).

11.3 Occupational Health and Safety Management

In 2005, the Company introduced a formal OHAS Policy that committed the company to the development and implementation of new OHAS management systems:

The occupational health and safety management system ("OHSMS") implemented in 2006 is based on an expanded version of the centralised OHSMS that existed prior to 2004. Considerable resources have been directed at improving training facilities and developing a more extensive programme of routine safety training. Site-specific procedures and safety infrastructure (signage, medical facilities, PPE etc.) have been reviewed and improved. More effort has been directed at ensuring that actual working practice complies with written requirements. An annual safety report is being produced.

Despite the introduction in 2006 of a new OHSMS, the maintenance of a high standard of health and safety continues to present a major challenge. An adverse safety culture is endemic in much of Russian industry and whilst SRK endorses the measures taken by Polymetal to counteract this, improving safety will be a long-term commitment.

11.4 Occupational Health

Occupational health issues at the Mining Assets include silica dust exposure; occupational lung diseases and noise induced hearing losses. Following implementation of the OHAS Policy and the OHSMS in 2005, the company has formalised its reporting process to enable reporting of the number and nature of claims in accordance with the categories as typified by the international mining industry: injury and poisoning; diseases of the nervous system and sense organs; diseases of the musculoskletal system and connective tissue; diseases of the skin and subcutaneous tissue; diseases of the digestive system, infectious and parasitic diseases; diseases of the respiratory system; diseases of the circulatory system; neoplasms (cancers and benign tumours); mental disorders; other diseases.

11.5 Safety Statistics

The Company does not currently report safety statistics in accordance with the internationally recognised benchmarks: Fatal Injury Frequency Rates ("FIFR") measured by the number of fatal injuries per one million hours worked; Lost Time Injury Frequency Rate ("LTIFR") measured by the number of lost time injuries per one million hours worked; or the Severity Rate ("SR") measured by the number of days lost per one million hours worked. Furthermore, as such statistics are not routinely reported comparisons in respect of the Ontario benchmark of FIFR of 0.15/mmhrs and LTIFR of 7.50/mmhrs are not possible.

At the Mining Assets fatalities were reported as one in 2006$^{(H1+Q3)}$, four in 2005 and none in 2004.

Notwithstanding this comment, and for the purpose of indicating historical trends, Table 11.1 presents the "industrial injuries" at the Mining Assets for 2003, 2004, and 2005.

Table 11.1 Mining Assets: Historical Safety Statistics

Mining Assets	Units	2003	2004	2005
Dukat	(No)	6	5	5
Vorontsovskoye	(No)	9	12	7
Lunnoye	(No)	15	6	4
Khakanjinskoye	(No)	12	11	15

Total work related injuries classified as minor for 2003, 2004, 2005 and 2006$^{(H1+Q3)}$ were 35, 26, 27 and 13 respectively. Total work related injuries classified as serious for 2003, 2004, 2005 and 2006$^{(H1+Q3)}$ were 7, 7, 2 and 1 respectively

11.6 Future Considerations

The workforce at the Mining Assets will continue to be exposed to the potential hazards such as water, dust, fire, seismicity, falls of ground ("FoG"), explosions, occupational hygiene issues and materials handling and transportation. Increased vigilance and focus will be required in respect of:

- Potential increases in the FoG as the proportion of production sourced from underground mining operations increases;
- Potential increases include silica dust exposure; occupational lung diseases and noise induced hearing losses as the proportion of production sourced from underground mining operations increases; and
- The necessity to continue implementation of good international practice against the background of a traditional poor safety culture that has characterised will continue to present a significant challenge.

12 ENVIRONMENTAL

12.1 Introduction

The following section includes discussion and comment on the environmental aspects of the Mining Assets. Specifically, detail and comment is included on the status of: environmental legislation applicable to the Mining Assets; compliance with legislation and environmental authorisations; environmental policies and management of key liabilities and risks over the LoMp; and decommissioning and closure liabilities. SRK has not reviewed any of the Exploration Properties in respect of environmental matters.

The criteria used for assessment purposes are those required by the host country legislation and generally accepted practices in the mining industry as applied in Russia. International requirements (World Bank, Equator Principles, ICMM etc) have not been specifically considered as part of this review, nor has the Sustainable Development concept of triple bottom line, social and economic issues.

Notwithstanding the above comments, SRK note that in 2005 the Company developed and implemented a programme of focused improvements to environmental management with the objective of ensuring full compliance with the then current policies and guidelines of the World Bank Group.

12.2 Legislation

The primary legislation governing the exploitation of mineral deposits in Russia currently is the 1992 Federal Law on Subsoil (also known as sub-surface resources) (as amended, most recently in 2006), which establishes the basis for the issuing of exploration and mining licences and defines the concept of the rational use of resources.

The terms and conditions attached to each licence routinely reference the need to conform to statutory environmental permitting procedures and to ensure adequate environmental protection and safety measures. Although specific details are rarely given, licence conditions may also include a requirement for the holder to "promote" social development in the vicinity of the licence area and to ensure that the site is rehabilitated after cessation of mining. The licence holder can be penalised if these conditions are not met and, in theory at least, the licence can be suspended and ultimately withdrawn.

12.2.1 Environmental permitting

The permitting procedure for mining projects in Russia consists of three distinct phases: "exploration", "project initiation" (which includes various stages of feasibility study, technical design, planning and construction), and "project operation". Environmental regulation, which is applied throughout these three phases, is established in primary legislation, principally the 2002 Federal Law on Environmental Protection (as amended), and administered by the Ministry of Natural Resources ("MNR") Detailed procedural measures, permitting procedures and the basis for quality standards are provided in subsidiary legislation, such as the 1999 Federal Law on Atmospheric Air Protection (as amended) and a series of "codes", such as the 1995 Water Code, the 1997 Forest Code and the 2001 Land Code (all as amended).

The key element of the "exploration" and "project initiation" phase is the OVOS process as defined in the 2000 Regulation on Environmental Impact Assessment of Planned Economic and Other Types of Activity. The OVOS process is roughly equivalent to the internationally recognised Environmental and Social Impact Assessment ("ESIA") procedure. The draft OVOS is used as the basis for the application for a series of separate licences and permits covering issues such as waste management, water abstraction and discharge, emissions to atmosphere etc. The licences and permits are also used as the basis for the payment of taxes based on the magnitude of the utilisation of natural resources. Resource utilisation, emissions, discharges and waste arisings that exceed the limits specified incur an increased rate of taxation.

Prior to construction, the draft OVOS, together with the licences and permits, are subjected to the State Environmental Expertise ("SEE") review process. Any changes to the project introduced after the SEE has issued a positive conclusion are also evaluated by the SEE before operations can begin.

Although the principles underlying this permitting procedure have been in place since the 1980s, the procedure has been amended and refined on numerous occasions. Consequently, mines that have been operating for some time are likely to have undergone a permitting procedure slightly different from that summarised above. Furthermore, mines commissioned prior to the 1980s are unlikely to have been through a formal OVOS/ESIA process.

During "project operation" regulation is provided through the maintenance of the series of licences and permits. Monitoring is undertaken to assess compliance with the detailed conditions attached to permits and environmental taxes are paid based on actual emissions, discharges and waste arisings. Exceeding the permit conditions does not necessarily constitute a legal offence, nor does it necessarily result in an adverse environmental impact; minor transgressions merely incur additional taxation based on a higher unit rate for the excess (typically 10 times to 25 times the standard rate).

The detailed conditions of each permit may be changed at the renewal date for each permit. Modifications to the operational design, such as the introduction of new technology or changes to production capacity, require application for new permits; such applications are supported by a "technical project" that supersedes the analysis given in the original OVOS.

12.2.2 Environmental standards

Russia has an extensive system of environmental standards that comprise a series of maximum acceptable concentrations ("MACs") covering air quality (separate MACs cover the workplace atmosphere and ambient air quality), water quality (covering drinking water, industrial, agricultural and recreational water use and fisheries protection), soil and river sediment quality, vegetation and accumulations of snow and ice. MACs are specified in a series of normative documents ("SNIPs"—roughly translated as "sanitary normative principles").

Direct comparison between Russian MACs and international environmental quality standards is not always straightforward, since the chemical speciation that is adopted, monitoring practices and analytical protocols can all differ significantly. Nevertheless, where comparison is feasible, Russian MACs are invariably at least as stringent as international environmental quality standards such as those adopted by the World Bank Group, World Health Organisation and European Union. It is SRK's experience that where environmental degradation has occurred in Russia, this has been related more to an apparent failure to apply rigorously the Russian standards and regulatory procedures than to any inherent weaknesses in these standards and regulatory procedures.

12.2.3 Regional variations

Russia is a federal state with a degree of authority being devolved to regional administrations. There are several different types of regional authority in Russia, including republics, krais, oblasts, okrugs and federal cities. Each of these administrations has its own legislature and executive with varying powers to determine local regulatory requirements and permitting procedures; republics tend to have the greatest level of autonomy.

In general, the key EHS requirements vary little between the regional administrations with regional legislation paralleling that of the federal government, but detailed permitting procedures and environmental taxation may differ slightly depending not only on the degree of autonomy but also factors such as the size (and hence capability) of the regional administration and the presence of specialists familiar with mining operations.

12.2.4 Compliance

SRK can confirm that an OVOS has been prepared for each of the Mining Assets in accordance with the Russian regulations; these documents have been subject to the formal State Environmental Expert Review process and all have gained Government approval. Approvals for Dukat (including Omsukchan), Lunnoye and Khakanjinskoye were received from the Magadan office of the Ministry of Natural Resources, which has delegated powers. The approval for Vorontsovskoye was granted by the Ministry in Moscow because as there are no delegated powers in Sverdlovsk.

The Company has also prepared an individual environmental monitoring plan for each of the operations, all of which have received formal approval from the authorities. The monitoring plans provide the record of actual emissions, discharges and waste disposal, which, in conjunction with the Russian standards and norms, form the basis for the pollution payments that are made to the local authorities.

SRK confirms that the procedures to ensure renewal of permits are in place. Further, SRK has been informed by the Company's Legal Advisors that as of the Effective Date all environmental permitting and licensing is in place at each of the Mining Assets, specifically for water usage, waste management and air emissions.

12.3 Environmental Management

The conventional Russian practice in Environmental Management, which had been adopted by the Company prior to 2004, focussed on regulatory compliance and, in particular, on the management of emissions, discharges and waste disposal in accordance with approved practice. This approach was largely "re-active" to the wishes of the regulatory authorities and not "pro-active" in identifying and investigating issues and continually improving management practice.

In 2005, the Company introduced a formal Environmental Policy that committed the company to the development and implementation of new environmental management systems:

The environmental management system ("EMS") that was implemented in 2006 integrates current Russian practice and regulatory requirements with key aspects of international good practice; the EMS incorporates most of the key aspects of ISO 14001, including elements of risk assessment, setting of targets, training, monitoring, record keeping and auditing.

A single documented approach to Environmental Management has been developed for consistent application at all sites. Detailed procedures and practices have subsequently been developed and documented for individual sites reflecting the site-specific conditions. These site-specific documents identify the key environmental issues at each site, outline the potential impacts, define the principal control measures to be adopted and establish a basis for routine monitoring and inspection. Annual environmental reports are produced for each operation.

12.3.1 Community and Social Programme

Many of the regions in which the Company operates are socially and economically undeveloped areas of Russia. The Company actively works with the local administrations in these regions to address some of the most pressing concerns. To maintain positive relationships with the local authorities and communities and to support the development of social infrastructure, the Company has entered into social partnership agreements with municipalities where it operates. The Company expects to sign similar agreements with the regional governments. Under these agreements, the Company organises and finances a variety of community development and humanitarian projects and has provided funds to support local hospitals, furnish equipment for schools, and finance the capital maintenance of township boiler houses.

In 2006, the Company signed an agreement with the Omsukchan regional administration to provide RUB20m over the next four years to help build and reconstruct social infrastructure, such as schools and medical clinics. The Company has also invested significant funds for development programmes in the Sverdlovsk Region, including financing the construction of the first urban, multi-functional public baths in Krasnoturinsk. The Company also focuses significant attention on developing sports—and particularly youth programmes—in this region. In the Khabarovsk Territory, the Company expects to sign a social partnership agreement in the fourth quarter of 2006. In both Khabarovsk and Magadan, the Company also donated money for the construction of churches. In Okhotsk, the Company contributes to the maintenance of public roads and invests in the renovation of the port. The Company's social investment spending for the first nine months of 2006 and for 2005 and 2004 was US$1.8m, US$0.5m and US$0.2m respectively.

12.4 Key Environmental Issues

12.4.1 Dukat, Lunnoye and Khakanjinskoye

Operations at Dukat are located on two sites—the mining operations at Dukat and the metallurgical processing operations some 40km away at Omsukchan. Lunnoye is located some 100km from Dukat.

These two sites are located in a remote low-mountainous area (maximum elevation 1,500m) where the principal land-use is forestry. The sites lie close to the watershed between two major river systems, one of which drains north to the Arctic Ocean whilst the other drains east to the Okhotsk Sea (Pacific Ocean); both river systems support high quality fisheries in their lower reaches. The climate is severe continental characterised by long cold winters and short summers. Total annual precipitation is low at around 350mm. The area is within the zone of permafrost.

Khakanjinskoye is located 85km north-northwest of the port of Okhotsk in a remote area of low hills (maximum elevation 600m) where the principal land-use is forestry. The sites lie close to the watershed between two major river systems, both of which drain to the Okhotsk Sea (Pacific Ocean); both river systems support high quality fisheries. The climate is characterised by long cold winters and short wet "monsoon" summers associated with proximity to the Pacific Ocean. The site is located at the transitional edge of the zone of permafrost with permafrost persisting in some areas but absent elsewhere

The operations are of modern design and are located in an area of low environmental and social sensitivity. Nevertheless, certain environmental and social issues continue to require careful management:

- **Air emissions:** The Company maintains appropriate measures for the capture and/or treatment of the principal point sources of atmospheric emissions. Fugitive dust from ore and waste rock handling and transport, however, can be problematic at certain times of the year. Dust suppression measures are implemented but are not always fully effective. The resultant impacts, however, are highly localised;
- **Water management:** The principal source of both potable and process water at all sites is a series of boreholes. Process water is also recycled from the tailings facility. Sewage waters are treated prior to discharge. Surface run-off from operational areas and rock dumps is not routinely captured and treated. The resultant impacts, however, are localised and unlikely to be significant;
- **Waste management:** The management of tailings, waste rock and other wastes follows standard Russian practice. The current tailings facility at Omsukchan does not have sufficient void space to accommodate all planned tailings production. A further expansion to the tailings facility is planned. There has been little attempt to characterise the geochemistry of the tailings or waste rock, although available information suggests that the risk of acid generation is very low; and
- **Social issues:** The settlement of Omsukchan is largely dependent upon the continued viability of Dukat and Lunnoye. Although the Company has only a limited liability for this settlement and its

infrastructure, the employment provided by the Company and the Company's social programme are essential for its continued survival.

12.4.2 Vorontsovskoye

Vorontsovskoye is located within the Sverdlovsk region to the east of the Ural Mountains. The surrounding area is traditionally associated with mining, and there are a number of active mining and quarrying operations in the vicinity, including an alumina refinery in the local town.

The locality around Vorontsovskoye is characterised by gently rolling terrain, which is largely forested but supports good agricultural production, with numerous farms and smallholdings between the forest areas.

The region is one of the more prosperous in Russia, because of the high industrial activity and the productive nature of the countryside. There appears to be a relatively high standard of living, and because of the local mining history there is widespread support for the mining operations.

Vorontsovskoye is of modern design, nevertheless, certain environmental and social issues continue to require careful management. The sensitivity of the operation is increased by the proximity of the nearest settlement, Krasnoturyinsk which lies less than 1km from the boundary of the open-pit, and proximity to the river Kakva, which supports a high quality fishery.

- **Air emissions:** The Company maintains appropriate measures for the capture and/or treatment of the principal point sources of atmospheric emissions. Fugitive dust from ore and waste rock handling and transport, however, can be problematic at certain times of the year. Dust suppression measures are implemented but are not always fully effective. The resultant impacts, although localised, may extend to parts of the town of Krasnoturyinsk;
- **Water management:** The principal source of both potable and process water at both sites is a series of boreholes. Process water is also recycled from the tailings facility. Sewage waters and excess process water are treated prior to discharge. Surface run-off from operational areas and rock dumps is captured and retained in settlement ponds prior to final discharge.

  Analysis of water quality in the Kakva River has highlighted localised concentrations of certain parameters (ammonia, iron, copper, zinc) that exceed Russian fishery standards; these localised exceedances are not believed to be attributable to Vorontsovskoye, but reflect contamination from other, older mineral working and elevated background concentrations in the area;
- **Waste management:** The management waste rock and other wastes follows standard Russian practice. Tailings produced by the CIP Facility is filtered to produce a "dry tailing" prior to disposal. Characterisation of the geochemistry of the tailings or waste rock has not been undertaken, although available information suggests that the risk of acid generation is very low.

12.5 Liabilities and Risks

The more important area of risk remains the cost rehabilitation of disturbed areas, remediation of any contamination and the ultimate stance of the regulators at the time of closure. Detailed closure plans have been prepared for each site and should be updated periodically during the life of the mine taking cognisance of better technical understanding, future land use requirements as agreed with stakeholders and regulatory opinion, as the mine approaches its end of economic life.

In 2006, the Company undertook an assessment of the closure liabilities at each of the four operational sites. SRK has endorsed the overall approach to assessing the liabilities, which were predicted to total US$19.2m. Table 12.1 presents the environmental closure liability and the expected closure date for each of the Mining Assets. SRK notes however that the principal risks which have not been quantified include:

- Potential social liabilities where settlements (Omsukchan) are largely dependent upon the continued viability of the Mining Assets (Dukat and Lunnoye): notwithstanding this comment, SRK notes that the Company currently has no legal liability for social conditions in this settlement; and
- The requirement for water treatment in response to changes in regulatory requirements which specify more stringent discharge criteria.

Table 12.1 Mining Assets: Environmental Liability Summary[1]

Mining Asset	Total Liability (US$m)	Closure Date (Year)
Dukat	5.4	2026
Vorontsovskoye	5.1	2024
Lunnoye	3.6	2026
Khakanjinskoye	5.1	2016
Total	**19.2**	

(1) The environmental liability summary noted above excludes any potential sales revenue which may be generated during the closure process. Furthermore they are presented in real terms 1 October 2006 and have not been discounted for time value of money purposes.

13 TECHNICAL-ECONOMIC PARAMETERS

13.1 Introduction

The following section presents a summary of the TEPs as incorporated into the FMs for the purpose of assessing the viability of the Ore Reserves for each of the Mining Assets in addition to those TEPs associated with the Head Office. The TEPs comprise projections for commodity sales, operating expenditures and capital expenditures have been compiled into annual schedules and presented as totals for the LoMp with expenditures presented in 1 October 2006 money terms.

13.2 Basis of the Technical-Economic Parameters

The TEPs are based on the LoMp, the resulting production profiles and associated revenue streams from commodity sales, operating expenditures and capital expenditure profiles as provided to SRK by the Company. These have been reviewed by SRK and adjusted where appropriate. The generation of a LoMp requires substantial technical input and detailed analysis and is critically dependent upon assumptions of the long-term commodity prices and sustained operating expenditure and the respective impact on cut-off grades, potential expansion and or reduction in Mineral Resource and Ore Reserve and the return on capital expenditure programmes.

13.3 Technical-Economic Parameters

The TEPs include:

- Gold and Silver sales;
- Mining, Processing and Overheads, the total of which is termed Direct Costs;
- Realisation including treatment charges, refining charges and marketing charges;
- Mineral Royalty;
- Property Tax;
- Environmental costs;
- Terminal Benefits;
- VAT Movement;
- Working Capital Movement; and
- Capital Expenditure.

These TEPs have also been used to present real terms reporting statistics on a co-product basis where expenditures (classified below) are divided by the equivalent gold sales. Expenditures as presented in the TEPs are classified as follows:

- **Cash Cost Components:** namely direct smelting costs, direct overhead costs, by-product credits, consulting fees, management fees, transportation and distribution charges;
- **Total Cash Costs** includes the incremental components, including royalties, but excluding taxes paid. Consequently in this case Total Cash Costs equal Cash Costs as incurred;

- **Total Working Costs** include the incremental components, including terminal separation liabilities, reclamation and closure costs (the net difference between the total environmental liability and the current trust fund provision) but excluding non-cash items such as depreciation and amortisation; and
- **Total Costs:** the summation of total working costs, net movement in working capital and capital expenditure.

Environmental provisions have been included in the operating costs on an accrual basis assuming the establishment of an Environmental Trust Fund. Notwithstanding this approach the most likely scenario will result in expenditures from such provisions being expended on commencement of the closure programme. SRK considers that there are potential opportunities to realise salvage value on closure, although owing to the indeterminate nature of estimating such values these have been excluded from the LoM projections included herein.

Furthermore, SRK notes that the TEPs, specifically the Mineral Royalty and Realisation costs include expenditures which are sales revenue dependent:

In respect of Mineral Royalty costs the following apply for each Tax Entity:

- gold sales at 6.0%; and
- silver sales at 6.5%.

In respect of Realisation costs the following apply for each Tax Entity individually:

- **Dukat Tax Entity:**
  - Refining charges of 0.8% and 1.85% for gold sales and silver sales respectively,
  - Bank Commission of 0.35% and 1.00% for gold sales and silver sales respectively,

  The remaining costs are related to transportation costs and treatment charges and amount to US$0.90/oz for both gold and silver. Note that some US$0.86/oz for both gold and silver is payable to Lunnoye Tax Entity for processing of concentrates produced at Dukat;
- **Vorontsovskoye Tax Entity:**
  - Refining charges of 0.5% and 1.20% for gold sales and silver sales respectively,
  - Bank Commission of 0.16% and 1.30% for gold sales and silver sales respectively,

  The remaining costs are related to transportation costs and amount to US$0.08/oz for both gold and silver.
- **Lunnoye Tax Entity:**
  - Refining charges of 0.8% and 1.85% for gold sales and silver sales respectively,
  - Bank Commission of 0.35% and 1.00% for gold sales and silver sales respectively,

  The remaining costs are related to transportation costs and amount to US$0.04/oz for both gold and silver. As the amount payable by Dukat is US$0.90/oz the total Realisation costs incurred by Lunnoye is reflected as a negative cost (that is revenue); and
- **Khakanjinskoye Tax Entity:**
  - Refining charges of 1.0% and 0.35% for gold sales and silver sales respectively,
  - Bank Commission of 0.18% and 1.50% for gold sales and silver sales respectively,

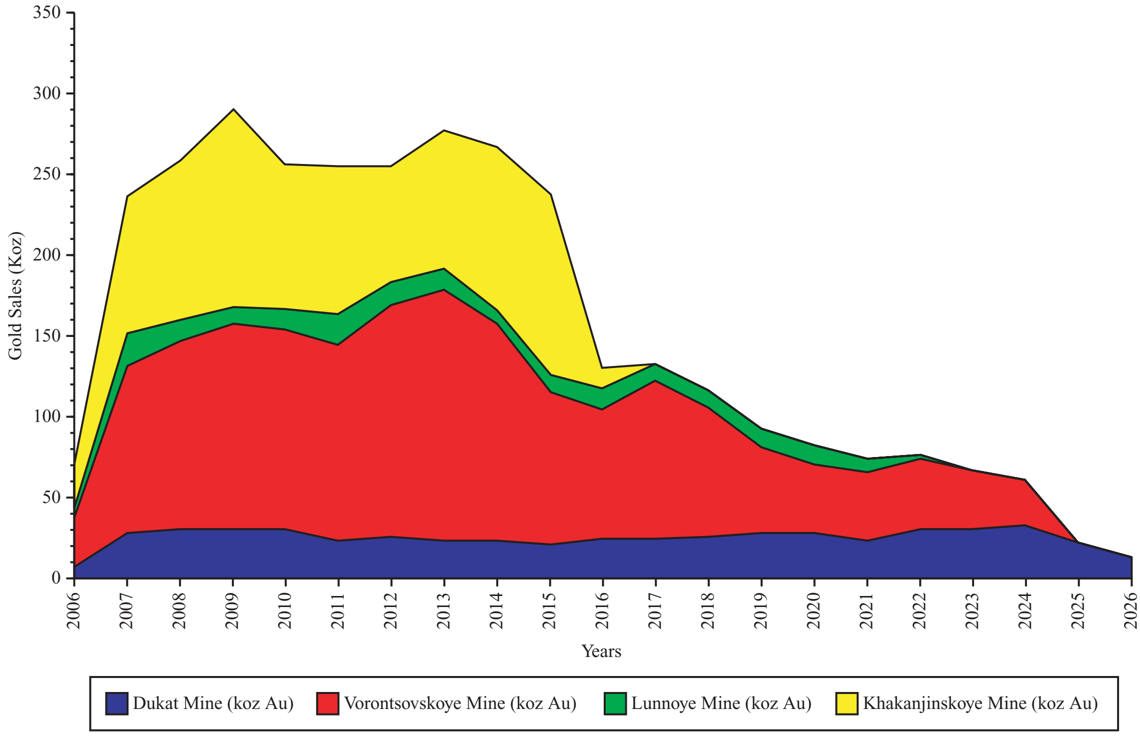
  The remaining costs are related to transportation costs and amount to US$0.17/oz for both gold and silver.

Table 13.1 Dukat Tax Entity TEPs—total LoMp

Financial Year	Gold Sales	Silver Sales	Mining	Processing	Overheads	Direct Costs	Realisation	Mineral Royalty	Property Tax	Environ-mental	Terminal Benefits	VAT Movement	Working Capital	Capital Expenditure	Total Expenditure
	(koz)	(koz)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)	(US$m)
Dukat	519	278,676	366.4	235.1	140.3	741.9	313.2	152.6	18.3	5.4	6.5	-7.2	-13.2	69.8	1,287.4
Vorontsovskoye .	1,651	1,145	127.8	161.2	64.9	353.9	5.7	47.8	9.3	5.1	1.9	-7.8	-33.0	34.1	417.1
Lunnoye	195	52,369	95.6	189.8	97.7	383.0	-224.0	32.5	11.8	3.6	4.7	-2.5	-10.1	37.5	236.6
Khakanjinskoye .	899	23,144	84.0	92.9	69.4	246.2	12.3	38.5	6.0	5.1	3.5	-10.7	-23.9	25.5	302.6
Head Office . . .	0	0	0.0	0.0	87.9	87.9	0.0	0.0	5.6	0.0	0.3	0.5	0.0	0.0	94.3
Polymetal	**3,264**	**355,334**	**673.8**	**678.9**	**460.2**	**1,812.9**	**107.2**	**271.4**	**51.1**	**19.2**	**17.0**	**-27.6**	**-80.2**	**166.9**	**2,337.9**

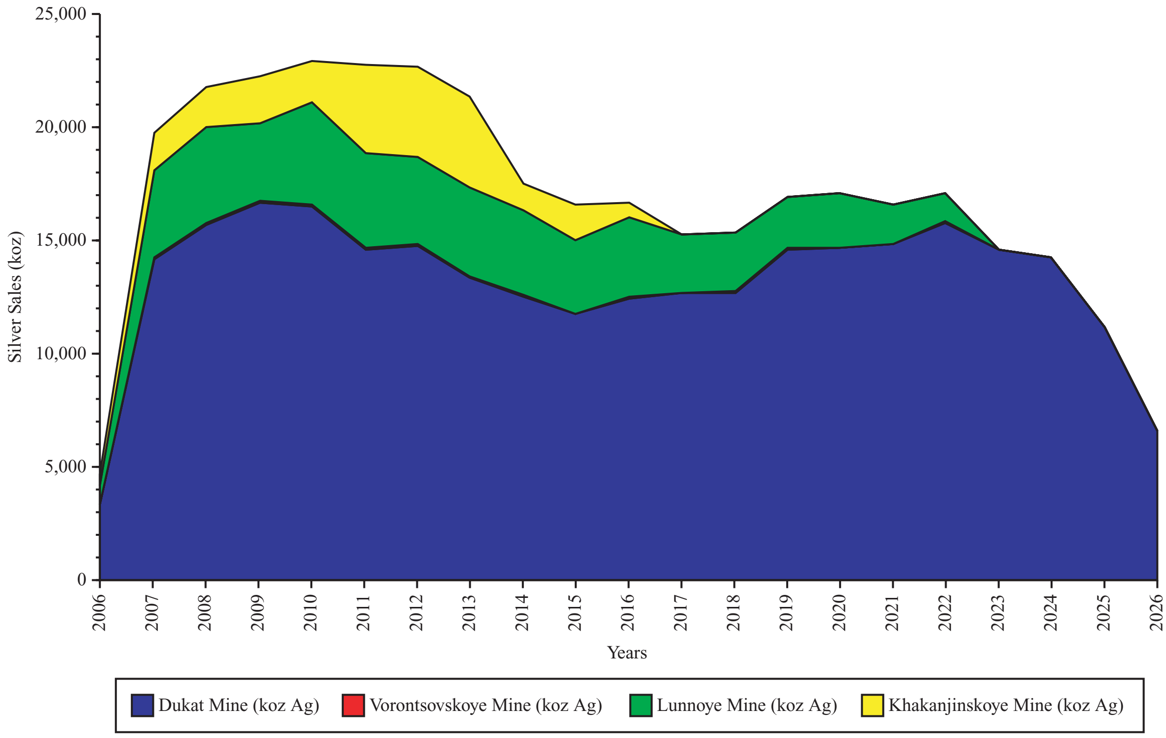
(1) The above table excludes the exploration expenditures as stated in Section 4.0 of this MER.

Figure 13.1 Mining Assets: Gold sales profile[1]



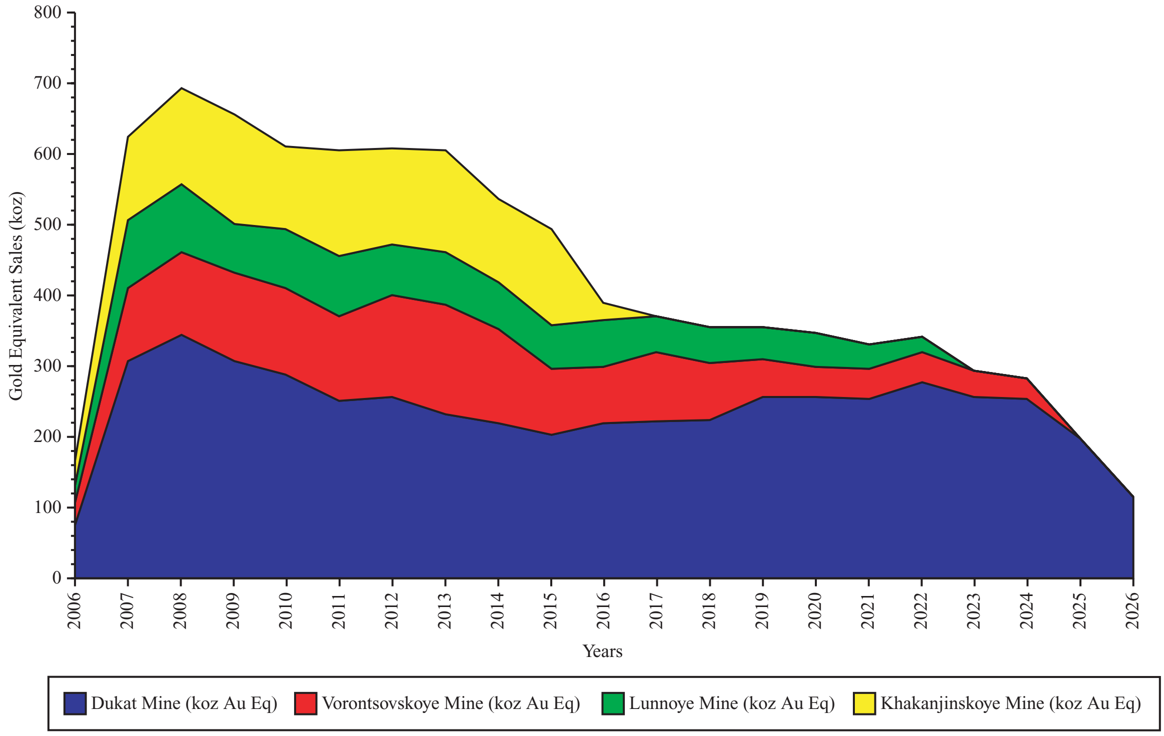
(1) Production for 2006 is only for 3 months to 31 December 2006.

Figure 13.2 Mining Assets: Silver sales profile[1]



(1) Production for 2006 is only for 3 months to 31 December 2006.

Figure 13.3 Mining assets: Gold equivalent sales profile[(1)]



(1) Production for 2006 is only for 3 months to 31 December 2006.

13.4 Special Factors

SRK has included its view on the achievement of the LoMp and the appropriateness of the Mineral Resource and Ore Reserve statements when presenting technical and financial data in this MER. As of the Effective Date (1 October 2006) SRK considers these projections to be achievable.

In all likelihood many of the identified risks and/or opportunities will have an impact on the Ore Reserves, some positive and some negative. The impact of one or a combination of risks and opportunities occurring cannot be specifically quantified to present a meaningful assessment.

Where specific technical issues have arisen as part of the review process, SRK has given an indication of the likely impact on the resulting cash costs and Ore Reserves.

13.4.1 General Risks and Opportunities

The Mining Assets are subject to certain inherent risks, which apply to some degree to all participants of the international precious metals mining industry. These include:

- **Commodity Price Fluctuations:** These many be influenced, inter alia, by demand for gold and silver in industry and jewellery, actual or expected sales by central banks, sales by gold and silver producers in forward transactions and production cost levels for gold and silver in major producing countries. In the three year period between 1 October 2003 and 30 September 2006 the gold price ranged between US$414/oz and US$661/oz and the silver price ranged between US$6.72/oz and US$12.90/oz;

- **Exchange Rate Fluctuations:** Specifically related to the related strength of the US$, the currency in which commodity prices are generally quoted. During the period between 1 October 2003 and 30 September 2006 the US$:RUB exchange rate ranged between 1:26.74 US$:RUB and 1:28.80 US$:RUB. As at 30 September 2006 the US$:RUB exchange rate was 1:26.78;

- **Inflation Rate Fluctuations:** Specifically related to the macro-economic policies of the individual countries. During the period between 1 October 2003 and 30 September 2006, United States CPI ranged between 1.88% and 3.39% reported on a calendar year basis. During the period between 1 October 2003 and 30 September 2006, Russian CPI ranged between 10.9% and 12.0% reported on a calendar year basis;

- **Country Risk:** Specifically country risk including, political, economic, legal, tax, operational and security risks;
- **Legislative Risk:** Specifically changes to future legislation (tenure, mining activity, labour, occupational health, safety and environmental) within Russia;
- **Exploration Risk:** Resulting from the elapsed time between discovery of deposits, development of economic feasibility studies to bankable standards and associated uncertainty of outcome;
- **Mining Risk:** Specifically Mineral Reserve estimate risks, uninsured risks, industrial accidents, labour disputes, unanticipated ground water conditions, human resource management and safety performance;
- **Environmental Risk:** The inability of the Mining Assets to fund the environmental liabilities from estimated operating cashflows, should operations cease prior to that projected in the LoMp. This would result in an unfunded liability since the estimated rehabilitation expenditure is not currently funded. As at 1 October 2006, the Company's environmental liability is estimated at US$19.2m. SRK notes that certain of this risk may be mitigated that no assumptions have been made regarding the ability to generate revenue through recovery of metals or sale of scrap and equipment when reporting this environmental liability;
- **Terminal Benefits Liability Risk:** The inability of the Mining Assets to fund the terminal benefits liabilities from estimated operating cashflows, should operations cease prior to that projected in the LoMp. This would result in an unfunded liability since the estimated terminal benefits expenditure is not currently funded. As at 1 October 2006, the Company's terminal benefits liability is estimated at US$17.0m (Table 10.4); and
- **Development Project Risk:** Specifically technical risks associated with brown fields expansions for which Feasibility Studies have been completed but for which construction, development and production has not commenced.

In addition to those stated above, the Mining Assets are subject to certain specific risks and opportunities, which independently may not be classified to have material impact (that is likely to affect more than 10% of the Tax Entities annual re-tax profits), but in combination may do so.

13.4.2 Asset Specific Risks

- **Dukat:**
  - Not achieving the projected improvements in metallurgical recoveries: specifically gold from current 76.9% to 79.6% in 2007; and silver from 84% to 87% in 2008,
  - That the current higher than planned unit operating costs continue, specifically in respect of mining costs,
  - Not achieving the projected ramp-up in underground production, specifically in 2011 and 2012,
  - The lack of detailed planning and scheduling for the underground operation beyond the current three year window. Upon completion this may necessitate a smoothing of the underground production build-up, an increase in the percentage contribution to mined tonnage from shrinkage mining methods and an increase in the amount of up-front development required.

  The net impact of the above will be that current unit cash costs (co-product –gold equivalent) at US$333/oz, being some 48% higher than planned, continue thus reducing the current cash margin when compared with the long term price assumption of US$450/oz for gold. SRK note, however that some of this increase is impacted by the higher prices incorporated into the price transfer mechanism for toll treating of concentrates at the Lunnoye Plant.
- **Vorontsovskoye Mine:**
  - Not achieving the projected improvements in metallurgical recoveries, specifically at: the Heap Leach Facility where gold is projected to improve from the current 56.2% to 79.6% in 2007 and silver from the current 12.2% to 34.5% in 2007; and the CIP Facility where gold is projected to improve from the current 77.4% to 83.4% in 2007 (84.9% in 2009) and silver from the current 37.6% to 46.5% in 2007,
  - Not achieving the current planned mining rate for both ore and waste,

– Not achieving the planned increase in process throughput at the CIP Facility, specifically increase to 940ktpa by 2006,

– That the current higher than planned unit operating costs continue, specifically in respect of mining and processing costs.

The net impact of the above will be that current unit cash costs (co-product—gold equivalent) at US$381oz, being some 44% higher than planned, continue thus reducing the current cash margin when compared with the long term price assumption of US$450/oz for gold. Further SRK note that re-optimisation of the current open-pittable resources with parameters based on current performance may result in a maximum 33% reduction in the currently stated Ore Reserves;

- **Lunnoye Mine:**

– Not achieving the projected improvements in metallurgical recoveries: for gold from the current 92.5% to 93.8% in 2007; and for silver form the current 88.6% to 90.9% in 2007;

– Not achieving the planned improvements in mining rates for both ore and waste at the open-pit operations,

– That the development of the open-pit mining operations at the Arylakh Project in 2007 is not achieved in a timely manner to attain a maximum ore mining rate of 220ktpa in 2008,

– That the development of the underground mining operations at the Lunnoye Project in 2008 is not achieved in a timely manner to attain a maximum ore mining rate of 150ktpa in 2009,

The net impact of the above will be that current unit cash costs (co-product—gold equivalent) excluding the toll treatment revenues being some 20% higher than planned, continue thus reducing the current cash margin when compared with the long term price assumption of US$450/oz for gold;

- **Khakanjinskoye Mine:**

– Not achieving the projected improvements in metallurgical recovery for silver from the current 47.5% to 51.4% in 2007;

– Not achieving the planned improvements in mining rates for ore at the current open-pit operations,

– That the development of the open-pit mining operations at No. 2 open-pit in 2007 is not achieved in a timely manner to attain a maximum ore mining rate of 112ktpa in 2008. Similar risks apply to the commencement of mining operations at No. 3 open-pit in 2011, the Yurievskoye Project in 2013, and the underground mining operations at Khakanjinskoye Mine in 2011 (150ktpa in 2012),

The net impact of the above will be that the current lower then projected unit cash costs (co-product—gold equivalent) will not be sustained, thus reducing the current cash margin when compared with the long term price assumption of US$450/oz for gold.

- **Albazino Project:**

– Not establishing sufficient tonnage of open-pittable Mineral Resources to warrant establishing a mining operation at the projected processing rate of 900ktpa,

– That development of the flowsheet identifies lower metallurgical recoveries than currently assumed at higher overall unit costs given the reliance on pressurized oxidation (a high cost process route)

– That capital expenditures as currently envisaged are higher on completion of a pre-feasibility level study estimate; and

- **Exploration Properties:**

– That the planned expenditure of US$26.4m for the Exploration Properties in addition to the US$12m considered for the AngloGold Ashanti strategic alliance and the US$2m for the Mongolrostsvetmet Joint Venture in 2007 does not warrant advancement to the next development phase.

13.4.3 Asset Specific Opportunities

- **Dukat Mine:**
  - The opportunity to implement the DEP thereby expanding the current process throughput from the current 850kpta to 1.5Mtpa at an additional capital cost of US$51m,
  - The opportunity to increase Ore Reserves by developing a LoMp at higher long term prices than currently used to derive the Ore Reserve statements (see sensitivity tables in Section 5.0),
  - The opportunity to extend the LoMp through successful exploration of the surrounding areas specifically at the Dukat Ore Field License and the Dukat Prospective Area,
- **Vorontsovskoye Mine:**
  - The opportunity to increase Ore Reserves by developing a LoMp at higher long term prices than currently used to derive the Ore Reserve statements (see sensitivity tables in Section 5.0),
  - The opportunity to extend the LoMp through successful exploration of the surrounding areas specifically at the Katasminskaya Prospect, the Rudnichniy Prospect and the Galkinskaya Prospect,
- **Lunnoye Mine:**
  - The opportunity to increase Ore Reserves by developing a LoMp at higher long term prices than currently used to derive the Ore Reserve statements (see sensitivity tables in Section 5.0),
  - The opportunity to Ore Reserves at Lunnoye 5 and Lunnoye 6, through development of an appropriately detailed LoMp,
  - The opportunity to upgrade the current Inferred Mineral Resources at Lunnoye Mine and Arylakh Mine to Indicated Mineral Resources and through development of an appropriately detailed LoMp to Ore Reserves;
- **Khakanjinskoye Mine:**
  - The opportunity to increase Ore Reserves by developing a LoMp at higher long term prices than currently used to derive the Ore Reserve statements (see sensitivity tables in Section 5.0),
  - The opportunity to extend the LoMp through successful exploration of the surrounding areas specifically at the Arkinskaya Prospect,
  - The opportunity to develop underground operations at the Arylakh Project;
- **Albazino Project:** the opportunity to develop the Albazino Project through completion of further exploration and technical studies, specifically increasing the Mineral Resource base by 2009; and
- **Exploration Properties:** the opportunity to establish Mineral Resources at:
  - The APU Prospect in the Chita Region,
  - The Fevralskoye and Reftinskaya Prospects in the Sverdlovsk Region,
  - The Anenskoye Prospect in the Krasnoyarsk Territory.

14 MACRO-ECONOMICS AND COMMODITY PRICES

14.1 Introduction

The following section includes historical and forecast data of the macro-economic and commodity price environments within which the Mining Assets operate. Historical data has been compiled from various sources and is generally presented in calendar years up to and including 30 September 2006. Forecast data is assumed as per the commodity prices included in Section 1.0 of this MER. Forecast data is presented in financial years ending 31 December and commencing 1 October 2006.

14.2 Historical and forecast Data

Table 14.1 presents a summary of the above mentioned statistics: historically for the past five years annually ending 31 December and 9 months ending 30 September 2006; and future commencing 1 October 2006 for 3 months to 31 December 2006 and annually (ending 31 December) for a further five years. The forecast data have been used to generate the total LoMp TEPs and also to undertake the Ore Reserve economic viability assessment.

Table 14.1 Historical and Forecast Macro-economic and Commodity Prices(1)

	Macro Economics			Commodity Prices	
Year	(US$:RUB)	US CPI (%)	RF CPI (%)	Gold (US$/oz)	Silver (US$/oz)
Historical					
2001	30.47	1.6%	18.8%	276	4.35
2002	31.93	2.4%	15.0%	334	4.63
2003	29.24	1.9%	12.0%	408	5.63
2004	27.71	3.3%	11.7%	442	7.10
2005	28.74	3.4%	10.9%	514	8.83
Sep-2006	26.78	4.2%	9.6%	599	11.55
Future					
Oct-2006	27.00	4.2%	9.6%	629	13.00
2006	27.36	4.2%	9.6%	636	13.14
2007	28.78	4.2%	9.6%	662	13.05
2008	30.28	4.2%	9.6%	635	12.74
2009	31.85	4.2%	9.6%	580	9.58
2010	33.50	4.2%	9.6%	536	8.33
2011	35.24	4.2%	9.6%	558	8.68

(1) Historical and Future commodity prices are presented in nominal terms.

Figure 14.1 and Figure 14.2 presents the historical and forecast statistics for gold and silver respectively in US$/oz. The figures presented include:

- Historical and forecast statistics in nominal terms;
- Historical and forecast statistics in real terms 1 October 2006; and
- The three year monthly averages in nominal terms.

Figure 14.3 presents the historical and forecast statistics for CPI for the United States and the Russian Federation, in addition to the nominal exchange rate between the US$ and the RUB. Forecast exchange rates are derived based on the principal of purchase power parity where future exchange rates are derived form the differential inflation of the United States and the Russian Federation. Historical statistics are not presented prior to 1998 due to the hyper inflationary environment and the re-rating of the RUB against the US$.

Figure 14.1 Gold Price: historical and forecast statistics in US$/oz real (1 October 2006) and nominal and three year monthly average (nominal)

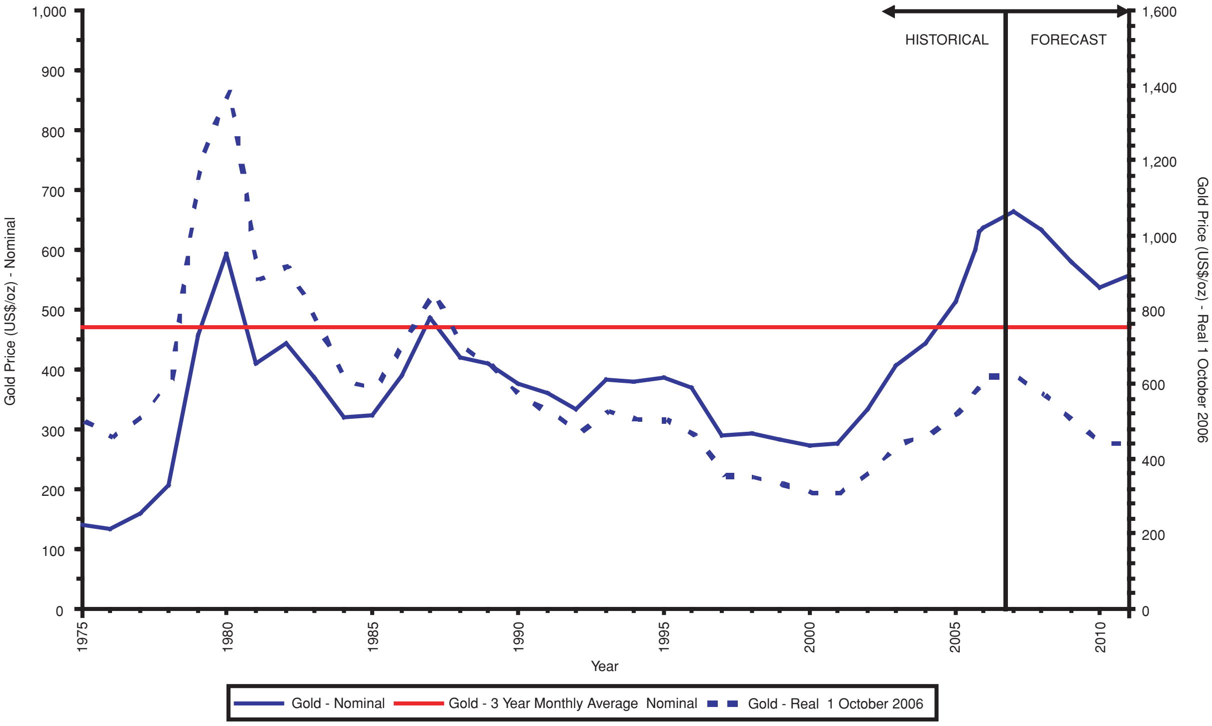


Figure 14.2 Silver Price: historical and forecast statistics in US$/oz real (1 October 2006) and nominal and three year monthly average (nominal)

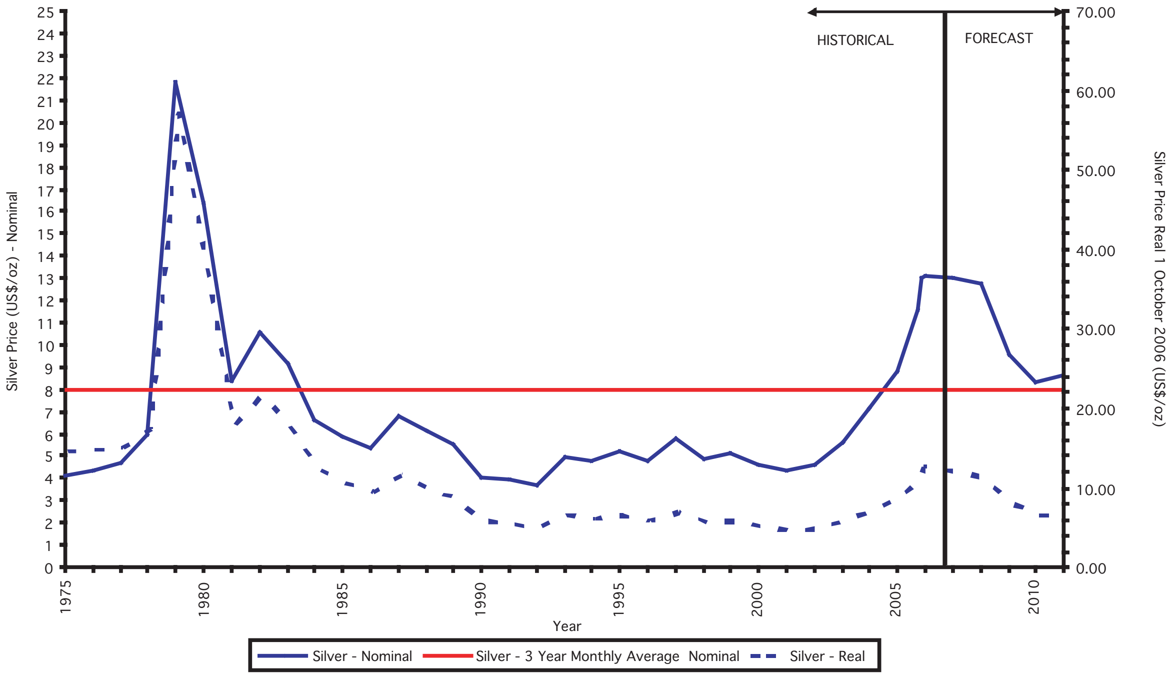
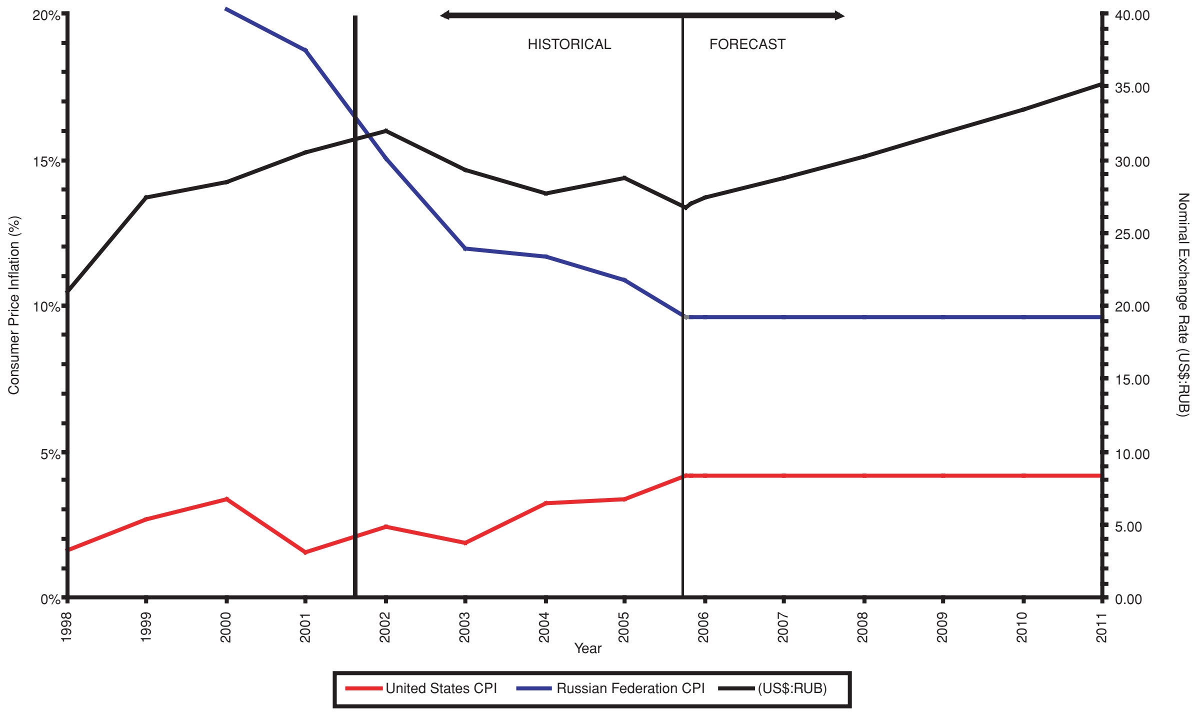


Figure 14.3 Macro-Economics: historical and forecast statistics for the United States and Russia



15 ORE RESERVE ECONOMIC VIABILITY ASSESSMENT

15.1 Introduction

The following section presents discussion and comment on the Ore Reserve economic viability assessment (the "Ore Reserve EVA"). Specifically, comment is included on the methodology used to establish the Financial Models necessary to complete the Ore Reserve EVA.

As discussed in Section 1.4.2 of this MER, SRK has relied upon the Company for certain inputs in to the Financial Models. These inputs are duly acknowledged by SRK.

SRK also duly acknowledge the Company's opinion that the remaining inputs to the Financial Models required to produce post-tax pre-finance cashflows have been accurately reflected in the Financial Models: specifically the depreciation, taxation (including VAT, Mineral Royalty, Property Tax, Corporate Investment Tax—"CIT") and working capital.

15.2 Limitations and Reliance on Information

15.2.1 Limitations

Save for the responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law SRK does not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this MER or statements contained therein, required by and given solely for the purpose of complying with item 23.1 of Annex 1 to the Prospectus Directive, consenting to its inclusion in the Prospectus.

The Company has confirmed in writing to SRK that to its knowledge the information provided by it (when providing) was complete and not incorrect or misleading in any material respect. SRK has no reason to believe that any material facts have been withheld and the Company has confirmed in writing to SRK that it believes it has provided all material information.

The achievability of the LoMp, budgets and forecasts are neither warranted nor guaranteed by SRK. The forecasts as presented and discussed herein have been proposed by the Company's management and adjusted where appropriate by SRK, and cannot be assured; they are necessarily based on economic assumptions, many of which are beyond the control of the Company. Future cash flows and profits derived from such forecasts are inherently uncertain and actual results may be significantly more or less favourable.

15.2.2 Reliance on Information

SRK believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinions presented in the MER. The preparation of a MER is a complex process and does not lend itself to partial analysis or summary.

SRK's Ore Reserve EVA is effective at 1 October 2006 and is based on information provided by the Company throughout the course of SRK's investigations, which in turn reflect various technical-economic conditions prevailing at the date of this report. In particular, the Ore Reserve EVA is based on expectations regarding the commodity prices and exchange rates prevailing at the date of this report. These and the underlying TEPs can change significantly over relatively short periods of time. Should these change materially the results of the Ore Reserves EVA could be materially different in these changed circumstances. Further, SRK has no obligation or undertaking to advise any person of any change in circumstances which comes to its attention after the date of this MER or to review, revise or update the MER or opinion.

15.3 Ore Reserve EVA Methodology

The methodology for undertaking the Ore Reserve EVA is based on the following:

- An assessment of the LoMp cash costs; and
- An assessment of the Commodity prices required to return a zero NPV at a discount factor of 10% real.

The Ore Reserve EVA is based on the application of Discounted Cash Flow ("DCF") techniques to the post-tax pre-finance cashflows as represented by the Financial Models as developed for each Tax Entity. The Financial Models are based on the various LoMp, including the TEPs as presented in Section 13.0 of this MER.

The Financial Models are based on annual cashflow projections ending 31 December and TEPs stated in 1 October 2006 money terms.

In generating the Financial Models to undertake the Ore Reserve EVA, SRK specifically, has:

- Incorporated the macro-economic forecasts as reflected in Table 1.1;
- Incorporated the commodity price forecasts as reflected in Table 1.1;
- Applied a 10% real terms discount factor of 10%;
- Relied upon the Board of Directors of the Company for all accounting inputs as required for the generation of the FMs in respect of Taxation (Table 15.1). Note that as at 1 October 2006 the Recoverable VAT position for each Tax Entity is:
  - US$15.9m for Dukat Tax Entity,
  - US$12.2m for Vorontsovskoye Tax Entity,
  - US$3.1m for Lunnoye Tax Entity,
  - US$17.5m for Khakanjinskoye Tax Entity,
  - US$2.0m for Head Office.

VAT in Russia is rated at 18% and is applicable to the following items: sale of goods (work and services) on the territory of Russia; transfer of goods (performance of works, provision of services) on the territory of Russia for the taxpayer's own use in respect of which expenses are not deductible for corporate profits tax purposes; construction and building projects for taxpayer's own use; and importation of goods into the customs territory of Russia. Furthermore, if a tax payer has a net VAT due from the budget (input VAT), there is a three month period before a claim can be made for a refund. The tax authorities, however, often require a taxpayer to carry forward un-refunded VAT for offset against future VAT payable. Further, a significant VAT claim for refund often triggers a tax inspection before the claim will be accepted.

Companies also normally distinguish between long-term VAT receivable and short-term VAT receivable, with the former and latter representing VAT arising from operating expenditures and VAT arising from capital expenditures respectively.

CIT is levied on the operating profit after taking into account all taxable allowances which include, depreciation, depletion and tax losses carried forward:

– Buildings depreciation charges of 2.5% applicable to the operating balance of the Net Book Value ("NBV") in any given reporting period);

– Equipment depreciation charges of 30% applicable to the opening balances of the NBV in any given reporting period;

– Taxable loses whereby operating profits (excluding depreciation) may be carried forward for up to 10 years, although taxable profits may not be reduced by more than 50% for 2006 and 2007 inclusive, thereafter this criteria falls away.

Tax payers may choose between the straight-line and the declining-balance methods; however, the latter method may not be applied to certain long-life assets, such as buildings. Once assets have been depreciated to 20% of their initial value under the declining-balance method, the straight line method is used for the remaining life of the asset. With effect from 1 January 2006, a one-time deduction is available on certain new capital expenditure equal to 10% of the historic value of the asset purchased or capital improvements made. The balance of 90% is available for tax depreciation in the usual way starting in 2006.

The FMs have assumed a simplified approach whereby depreciation is estimated at 10% of sum of the NBV at the beginning of the period and any additions during the same reporting period. The opening balance of NBV for the Tax Entities as at 1 October 2006 is: US$50.5m for Dukat; US$23.4m for Vorontsovskoye; US$41.6 for Lunnoye; and US$25.6m for Khakanjinskoye.

Property Taxes are based on 2.2% of the NBV of both buildings and equipment. The amount deemed payable in any given reporting period is the NBV at the start of the reporting period.

Mineral Royalties are estimates as 6.00% of sales revenue for gold and 6.50% of sales revenue for silver.

- Relied upon the Company to the extent that for all accounting inputs as required for the generation of the FMs in respect of the Net Movement in Working Capital (Table 15.2, Table 15.3); and
- Excluded the impact of salvage value on cessation of operations.

Table 15.1 Taxation input parameters as at 1 October 2006(1)

Tax Entity	Assessed Loss	Corporate Income Tax
	(US$m)	(%)
Dukat Tax Entity	0.0	24.0%
Vorontsovskoye Tax Entity	0.0	24.0%
Lunnoye Tax Entity	0.0	24.0%
Khakanjinskoye Tax Entity	0.0	24.0%

(1) The Company has reported assessed tax losses of US$6.1m as at 30 September 2006, however this has not been included in the Financial Model.

Table 15.2 Working Capital input parameters as at 1 October 2006: opening Balances

Tax Entity	Units	Debtors	Creditors	Stores
Dukat Tax Entity	(US$m)	4.4	(2.8)	11.6
Vorontsovskoye Tax Entity	(US$m)	28.0	(2.9)	7.9
Lunnoye Tax Entity	(US$m)	1.5	(1.0)	9.7
Khakanjinskoye Tax Entity	(US$m)	8.1	(1.4)	17.3
Head Office	(US$m)	—	(1.6)	0.4
Polymetal	**(US$m)**	**41.9**	**(9.6)**	**46.8**

Table 15.3 Working Capital input parameters as at 1 October 2006: days

Tax Entity	Units	Debtors	Creditors	Stores
Dukat Tax Entity	(days)	10	12	215
Vorontsovskoye Tax Entity	(days)	143	23	116
Lunnoye Tax Entity	(days)	14	121	276
Khakanjinskoye Tax Entity	(days)	29	17	456
Head Office	(days)	0	30	30

16 CONCLUDING REMARKS

16.1 Introduction

The following section includes a summary of SRK's opinion on the Mining assets and the resulting Ore Reserve EVA.

SRK has conducted a comprehensive review and assessment of all material issues likely to influence the future operations of the Mining Assets. The LoMp for the Mining Assets, as provided and taken in good faith by SRK, have been reviewed and adjusted by SRK where considered appropriate.

16.2 Mineral Resources and Ore Reserves

The Mineral Resource and Ore Reserve statement as included in this MER includes total Mineral Resources of 13.5Moz gold equivalent (5.5Moz Au and 529.6Moz Ag) contained within a tonnage of 60.8Mt grading 6.9g/t Au Eq (2.8g/t Au; 270.9g/t Ag) and total Ore Reserves of 10.3Moz gold equivalent (3.8Moz Au and 423.0Moz Ag) contained within a tonnage of 50.5Mt grading 6.3g/t Au Eq (2.3 g/t Au; 260.3g/t Ag).

In assessing the potential beyond this, the reader is referred to the various Ore Reserve sensitivities as reflected in Section 5.0 of this MER and SRK's comments regarding the Exploration Projects, specifically Albazino. The Ore Reserve sensitivities, however, are not based on detailed LoMp and should only be considered on a relative basis.

SRK concludes that the Mineral Resources and Ore Reserves as stated herein are compliant with the JORC Code and should these be reported in accordance with Industry Guide 7 they would be identical.

Table 16.1 presents the results of the Ore Reserve marginality assessment for the Mining assets whereby the current (YTD Q3 2006) cash costs (co-product gold equivalent) are compared with the LoMp weighted averages and the commodity prices required to return the post-tax pre-finance breakeven position at a real terms discount factor of 10% are stated.

Table 16.1 Mining Assets: Ore Reserve EVA(1)

	Cash Costs		+NPV	
Mining Asset	LoMp	YTD Q3 2006	Gold Price	Silver Price
	(US$/oz Eq Au)	(US$/oz Eq Au)	(US$/oz)	(US$/oz)
Dukat Mine	241	333	254	3.95
Vorontsovskoye Mine	244	381	250	3.88
Lunnoye Mine + Arylakh Project	182	67	233	3.62
Khakanjinskoye Mine + Yurievskoye Project	232	192	240	3.73
Company	233	290	263	4.09

(1) The current (YTD Q3 2006) cash costs for Lunnoye Mine is significantly impacted by the toll treatment revenues received from Dukat Mine which is based on the spot commodity prices. The cash costs for Dukat Mine in this period are similarly affected.

16.3 Risks and Opportunities

The Ore Reserves EVA as presented above should be considered in conjunction with the following risks and opportunities:

Notwithstanding this statement SRK note that the principal issues as they relate to each of the Mining Assets are:

- The risk that operational improvements are not achieved and unit cash costs continue at current levels, specifically at:
  - Dukat Mine in respect of metallurgical recoveries for gold (currently 76.9%, planned 79.6% in 2007) and silver (currently 84%, planned 87% in 2008) and unit mining costs,
  - Vorontsovskoye Mine in respect of: the metallurgical recoveries at the Heap Leach Facility for gold (currently 56.2%, planned 79.6% in 2007) and silver (currently 12.2%, planned 34.5% in 2007); the metallurgical recoveries at the CIP Facility for gold (currently 77.4%, planned 83.4% in 2007) and silver (currently 37.6%, planned 46.5% in 2007); mining rates for both ore and waste;
- The risk that the brownfields development projects are not achieved as forecasted, specifically at:
  - Dukat in respect of the projected increase in mining rate at the underground operations,
  - Vorontsovskoye in respect of the projected increase in throughput at the CIP Facility,
  - Lunnoye in respect of the underground mining operations at Lunnoye Mine and the open-pit mining operations at Arylakh Project,
  - Khakanjinskoye in respect of the open pit mining operations at Yurievskoye Project and the underground mining operations at Khakanjinskoye Mine,
- The opportunity to increase Ore Reserves, specifically at:
  - Dukat Mine by consideration of higher long term commodity prices and exploration potential at the Dukat Ore Field License and the Dukat Prospective Area,
  - Vorontsovskoye Mine by consideration of higher long term commodity prices and exploration potential at the Katasminskaya Prospect, the Rudnichniy Prospect and the Galkinskaya Prospect,
  - Lunnoye Mine by: consideration of higher long term commodity prices; exploration potential at the Katasminskaya Prospect, the Rudnichniy Prospect and the Galkinskaya Prospect; development of a LoMp for Lunnoye 5 and Lunnoye 6; upgrading of the currently classified Inferred Mineral Resources at the Lunnoye Mine and the Arylakh Project,
  - Khakanjinskoye Mine by consideration of higher long term commodity prices; exploration potential at the Arkinskaya Prospect; development of a LoMp for underground operations at Arylakh Project;
  - Albazino Project by completion of further exploration and technical studies, specifically increasing the Mineral Resource base by 2009; and
- The opportunity to advance the Exploration Projects, specifically at:
  - The APU Prospect in the Chita Region,
  - The Fevralskoye and Reftinskaya Prospects in the Sverdlovsk Region,
  - The Anenskoye Prospect in the Krasnoyarsk Territory

Furthermore SRK has been informed that the Company intends to use the proceeds of the Offer to:

- Repay existing indebtedness of approximately US$250m to US$300m;
- Fund approximately US$12m of cash contributions to the AngloGold Ashanti strategic alliance; and
- Fund US$20m repayment of the debt owed by the Company to Pan American Silver inc conjunction with the Company's acquisition of the minority interest in Dukat.

For and behalf of SRK Consulting (UK) Limited

Mr John Miles,
Principal Consultant,
SRK Consulting.

Dr. Michael Armitage,
Managing Director and Corporate Consultant,
SRK Consulting.

Dr Iestyn Humphreys,
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GLOSSARY

Activated Carbon	Carbon, mostly of vegetable origin, and of high adsorptive capacity.
Adit	A horizontal or nearly horizontal passage driven from the surface for the working or dewatering of a mine.
Adsorption (Gold)	The attachment of a thin film of liquid or gas, commonly monomolecular in thickness, to a solid substrate: gold onto carbon.
Adularia	A colourless, moderate- to low-temperature variety of orthoclase feldspar typically with a relatively high barium content.
Agglomeration	In beneficiation, a concentration process based on the adhesion of pulp particles to water. Loosely bonded associations of particles and bubbles are formed that are heavier than water; flowing-film gravity concentration is used to separate the agglomerates from non-agglomerated particles. Agglomeration also refers to briquetting, nodulining, sintering, etc.
Air Spargers	Compressed air bubblers used for injecting air/oxygen into the leaching process.
Albazino Project	An exploration property which is wholly owned by Resource Albazino.
Alluvial Gold	Said of a placer formed by the action of running water, as in a stream channel or alluvial fan; also said of the valuable mineral, e.g., gold or diamond, associated with an alluvial placer.
Andesite	A dark-coloured, fine-grained extrusive rock that, when porphyritic, contains phenocrysts composed primarily of zoned sodic plagioclase (esp. andesine) and one or more of the mafic minerals (e.g., biotite, hornblende, pyroxene), with a groundmass composed generally of the same minerals as the phenocrysts, although the plagioclase may be more sodic, and quartz is generally present; the extrusive equivalent of diorite.
Anenskoye Prospect	An exploration property which is wholly owned by Yenisey.
AngloGold Ashanti Strategic Alliance	The strategic alliance between the Company and AngloGold Ashanti in respect of pursuing gold mining opportunities through exploration, development and, potentially, selected acquisitions of mining properties in Siberia and the Russian Far East.
Antimony	Metallic antimony is an extremely brittle metal with a flaky, crystalline texture. Symbol, Sb. Sometimes found native, but more frequently as the sulphide, stibnite (Sb_2S_3). Used in semiconductors, batteries, antifriction alloys, type metal, small arms, tracer bullets, cable sheathing, flame-proofing compounds, paints, ceramics, glass, and pottery. Antimony and many of its products are toxic.
Antimonite	A salt or ester of antimonious acid or antimonous acid; a compound containing the radical SbO_3^{-3} or SbO_2^{-1} in which antimony has a +3 valence.
Aprelkovsko-Peshkovsky Prospect	An exploration property which is wholly owned by Imitzoloto.
APU Project	Collectively Talovy Prospect, Rudni Prospect and the Aprelkovsko-Peshkovsky Prospect.
Argenite	Silver sulphide Ag_2S.
Arkinskaya Prospect	An exploration property which is wholly owned by Georazvedka.

Arsenopyrite	A monoclinic mineral, 8[FeAsS]; pseudo-orthorhombic, prismatic, and metallic silver-white to steel gray; the most common arsenic mineral and principal ore of arsenic; occurs in many sulfide ore deposits, particularly those containing lead, silver, and gold; arsenical pyrite; white pyrite; white mundic.
Arylakh Project	A project which is a wholly owned asset of Lunnoye.
Assay Pulps	The assay of samples taken from the pulp after or during crushing.
Assessed losses	The assessed losses incurred by a company from historical trading.
Auditors	ZAO PricewaterhouseCoopers Audit.
Ball Mill	A rotating horizontal cylinder with a diameter almost equal to the length supported by a frame or shaft, in which non-metallic materials are ground using various types of grinding media such as quartz pebbles, porcelain balls, etc.
Barren Dykes	Dykes which do not host any ore bearing mineralisation.
Base Information Date	1 January 2006.
Bedrock	A general term for the rock, usually solid, that underlies soil or other unconsolidated, superficial material.
Berm	A horizontal shelf or ledge built into the embankment or sloping wall of an open pit or quarry to break the continuity of an otherwise long slope and to strengthen its stability or to catch and arrest slide material. A berm may be used as a haulage road or serve as a bench above which material is excavated from a bank or bench face.
Blasthole	A hole drilled in a material to be blasted, for the purpose of containing an explosive charge.
Bench	The horizontal step or floor along which coal, ore, stone, or overburden is mined.
Block Model	A three dimensional electronic model in which geological characteristics and qualities are housed.
Bogunay Prospect	An exploration prospect contributed by AngloGold Ashanti to the proposed Strategic Alliance.
Boreal Evergreen Forest	A band of evergreen conifer forests extends around the northern hemisphere in the sub-arctic latitudes.
Boulangerite	A monoclinic mineral, $Pb_5Sb_4S_{11}$; metallic; bluish-gray; massive.
Breccia	A coarse-grained clastic rock, composed of angular broken rock fragments held together by a mineral cement or in a fine-grained matrix; it differs from conglomerate in that the fragments have sharp edges and unworn corners. Breccia may originate as a result of talus accumulation, explosive igneous processes, collapse of rock material, or faulting.
Brecciation	The geological process of generating Breccia.
Bulldozers	A tractor on the front end of which is mounted a vertically curved steel blade held at a fixed distance by arms secured on a pivot or shaft near the horizontal centre of the tractor. The blade can be lowered or tilted vertically by cables or hydraulic rams. It is a highly versatile piece of earth excavating and moving equipment esp. useful in land clearing and levelling work, in stripping topsoil, in road and ramp building, and in floor or bench cleanup and gathering operations. Also called dozer.

Bullion	Refined gold or silver, uncoined, in the shape of bars, ingots, or comparable masses.
By-product credit	Secondary products of commercial value which are reflected as a credit to the operating expenditures.
Calcite	A trigonal mineral, 4[$CaCO_3$]; has prolific crystal habits, rhombohedral cleavage; defines hardness 3 on the Mohs scale; effervesces readily in dilute hydrochloric acid; a common and widely distributed rock-forming, authigenic, biogenic, and vein mineral; raw material for Portland cement, agricultural lime, flux for ore reduction, dimension stone, and concrete aggregate; the major mineral in limestone, marble, chalk, spongy tufa, cave deposits, and carbonatite; a cementing mineral in many clastic sedimentary rocks; a minor mineral in some silicate igneous and metamorphic rocks.
Capital expenditure	Expenditures incurred during the process of commencing, expanding or sustaining production.
Carbonate	One of several minerals containing one central carbon atom with strong covalent bonds to three oxygen atoms and typically having ionic bonds to one or more positive ions.
Carboniferous	A major division of the geologic timescale that extends from the end of the Devonian period, about 359.2Ma (million years ago), to the beginning of the Permian period, about 299.0Ma (ICS 2004).
Carbon-in-Pulp	A precious metals leaching technique in which granular activated carbon particles much larger than the ground ore particles are added to the cyanidation pulp after the precious metals have been solubilised. The activated carbon and pulp are agitated together to enable the solubilised precious metals to become adsorbed onto the activated carbon. The loaded activated carbon is mechanically screened to separate it from the barren ore pulp and processed to remove the precious metals and prepare it for reuse.
Cash cost	Direct smelting costs, direct overhead costs, by-product credits, consulting fees, management fees, transportation and distribution charges.
Cathode Sediment	The sediment which is collected.
Cementation	Method for the recovery of metal values from a solution by means of a cementation reaction.
CESR Recommendations	CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses "No. 909/2004", published in January 2005: specifically paragraphs 131 to 132, section 1b—Mineral Companies.
Chalcopyrite	Tetragonal mineral, $CuFeS_2$; brass-yellow with bluish tarnish; massive; softer than pyrite; occurs in late magmatic hydrothermal veins and secondary enrichment zones; the most important source of copper; yellow pyrite; yellow copper.
Chalcedony	A fine-grained or cryptocrystalline variety of quartz; commonly microscopically fibrous; translucent or semitransparent, with a nearly waxlike luster; has lower density and indices of refraction than ordinary quartz. Chalcedony is the material of much chert, flint, and jasper; commonly an aqueous deposit filling or lining cavities in rocks.

Chapter 19	Chapter 19 of the UKLA's Listing Rules as it existed on June 30, 2005 (prior to its deletion upon the implementation in the UK on July 1, 2005 of the Prospectus Directive).
CIP Facility	The CIP metallurgical processing facility at Vorontsovskoye.
Chlorite	A compound that contains this group, with chlorine in oxidation state +3. Chlorites are also known as salts of chlorous acid.
Clean-up Metal	Saleable metal recovered during the closure process when process plant demolition is undertaken.
Cobra drilling	A man-portable rotary auger.
Comminution	The breaking, crushing, or grinding by mechanical means of stone, coal, or ore, for direct use or further processing.
Company	OJSC Polymetal Management.
Competent Person	A person who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a "Recognised Overseas Professional Organisation" ("ROPO") included in a list promulgated from time to time. A "Competent Person" must have a minimum of five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which that person is undertaking.
Conglomerates	A clastic rock composed of particles more than 2mm in diameter and marked by the roundness of its component grains and rock fragments.
Concentrate	The clean product recovered in froth flotation.
Copper	A reddish metallic element that takes on a bright metallic luster and is malleable, ductile, and a good conductor of heat and electricity. Symbol, Cu. Occasionally occurs native, and is found in many minerals such as cuprite, malachite, azurite, chalcopyrite, and bornite.
Core	A solid, cylindrical sample of rock produced by an annular drill bit, generally rotatively driven but sometimes cut by percussive methods.
Core Recovery	The amount of the drilled rock withdrawn as core in core drilling, generally expressed as a percentage of the total length of the interval cored.
Counter current washing circuit	A circuit in which the washing material flows in the opposite direction of the material to be washed.
Creditors	A party (e.g. person, organisation, company, or government) that claims that a second party owes the first party some properties or services.
Cretaceous	Applied to the third and final period of the Mesozoic Era. Extensive marine chalk beds were deposited during this period.
Crosscut	A horizontal opening driven across the course of a vein or in general across the direction of the main workings.
Crown Pillar	An ore pillar at the top of an open stope left for wall support and protection from wall sloughing above.
Crushing	Size reduction into relatively coarse particles by stamps, crushers, or rolls.

Current Account Balance	The sum of the balance of trade (exports less imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid).
Cut-off Grade	The lowest grade of mineralised material that qualifies as ore in a given deposit; rock of the lowest assay included in an ore estimate.
Cyanide Leaching	Dissolution from ore or concentrates after suitable comminution to expose the valuable minerals, by aqueous and chemical attack, in this case by application of cyanide.
Debtors	The opposite of a Creditor who is someone you owe money to.
Depreciation	Term used to describe any method of attributing the cost of an asset across the useful life of the asset.
Desorption	The reverse process of adsorption whereby adsorbed matter is removed from the adsorbent. The term is also used as the reverse process of absorption.
Detoxed Tailings	Tailings which have been subjected to a cyanide detoxification process.
Development	The work done in a mine to open up the paying ground or roof and, in particular, to form drives or haulages around blocks of ore. Also subdivided into Stope development and capital development.
Devonian	The fourth period, in order of decreasing age, of the periods making up the Paleozoic era. It followed the Silurian period and was succeeded by the Mississippian period. Also, the system of strata deposited at that time. Sometimes called the Age of Fishes.
De-Watering Hole	A hole used for the draining of an aquifer when adjacent wells or mine workings are pumped.
Diamond Drill Hole	A drill hole formed by the act or process of drilling boreholes using bits inset with diamonds as the rock-cutting tool. The bits are rotated by various types and sizes of mechanisms motivated by steam, internal-combustion, hydraulic, compressed-air, or electric engines or motors.
Diesel Generator	A source of electricity, esp. one that transforms heat or mechanical work directly into electric energy, as opposed to a voltaic battery.
Dig line	The line which demarcates the boundary between ore and marginal ore, and marginal ore and waste in an open-pit. The material may be free digging or may be blasted ore.
Diluting Grade	The grade of the diluting material.
Dilution	The contamination of ore with barren or grade bearing wall rock in stoping. The assay of the ore after mining is frequently lower than when sampled in place. Dilution(1) relates to the proportion of waste that is contained in the Run-of-Mine ore delivered to the metallurgical processing plant. Dilution(2) relates to diluting tonnage expressed as a percentage of in-situ ore mined.
Dip	The angle at which a bed, stratum, or vein is inclined from the horizontal, measured perpendicular to the strike and in the vertical plane.
Discounted Cashflow	Cashflows which have been discounted by application of a discount factor.
Discount Factor	The discounted value of a cash flow is determined by reducing its value by the appropriate discount rate for each unit of time between the time when the cashflow is to be valued to the time of

	the cash flow. Most often the discount rate is expressed as an annual rate.
Domain	A domain in which the properties display similar characteristics.
Doré	Gold and silver bullion that remains in a cupelling furnace after the lead has been oxidized and skimmed off.
Dragline	A type of excavating equipment that casts a rope-hung bucket a considerable distance; collects the dug material by pulling the bucket toward itself on the ground with a second rope; elevates the bucket; and dumps the material on a spoil bank, in a hopper, or on a pile.
Drill Hole	Technically, a circular hole drilled by forces applied percussively; loosely and commonly, the name applies to a circular hole drilled in any manner.
Drilling Rig	A general term for the derrick, power supply, draw works, and other surface equipment necessary in rotary or cable-tool drilling.
Dry-stacked TSF	A TSF which stores tailings in dry form by filtering to remove water.
Dukat	Dukat Tax Entity incorporating the Mining Assets attributable to Magadan Silver.
Dukat Mine	The open-pit and underground mining operations which is wholly owned by Dukat.
Dukat Ore Field	An exploration prospect classified as part of the regional exploration campaign in Magadan region and wholly owned by Magadan Silver.
Dukat Plant	The Dukat metallurgical processing plant.
Dukat Prospective Area	An exploration prospect classified as part of the regional exploration campaign in Magadan Region and wholly owned by Magadan Silver.
Dyke	Tabular igneous intrusion that cuts across the bedding or foliation of the country rock.
Effective date	1 October 2006.
Electric Locomotive	An electric engine, operating either from current supplied from trolley and track or from storage batteries carried on the locomotive. The locomotive may be powered by battery, diesel, compressed air, trolley, or some combination such as battery-trolley or trolley-cable reel. Used to move empty and loaded mine cars in and out of the mine.
Electro-winning	An electrochemical process in which a metal dissolved within an electrolyte is plated onto an electrode. Used to recover metals such as cobalt, copper, gold, and nickel from solution in the leaching of ores, concentrates, precipitates, matte, etc.
Electrum	Part of the series isometric native gold-silver (Au-Ag); deep to pale yellow; argentiferous gold containing more than 20% silver.
Epidote	A common rock-forming mineral with albite and chlorite in low-grade metamorphic rocks and an accessory in some igneous rocks.
Epithermal	Said of a hydrothermal mineral deposit formed within about 1km of the Earth's surface and in the temperature range of 50°C to 200°C, occurring mainly as veins.
Eq. coefficient	Ag to Au. Au to Ag.

Equator Principles	A set of voluntary environmental and social guidelines for ethical project finance. These principles commit banks and other signatories to not finance projects that fail to meet these guidelines.
Exploration	The search for coal, mineral, or ore by (1) geological surveys; (2) geophysical prospecting (may be ground, aerial, or both); (3) boreholes and trial pits; or (4) surface or underground headings, drifts, or tunnels. Exploration aims at locating the presence of economic deposits and establishing their nature, shape and grade, and the investigation may be divided into (1) preliminary and (2) final.
Exploration Model	A block model in which grades have been interpolated largely from consideration of exploration drillholes alone.
Exploration Properties	Collectively the stand-alone exploration projects and the regional exploration campaigns.
Extraction Ratio	The estimation of the efficiency of a mining method which compares the void left by mining to the volume defined by the orebody.
Extrusive	Said of igneous rock that has been erupted onto the surface of the Earth. Extrusive rocks include lava flows and pyroclastic material such as volcanic ash. An extrusive rock; volcanic, eruptive.
Fall of Ground	Rock falling from the roof into a mine opening.
Fault	A fracture or a fracture zone in crustal rocks along which there has been displacement of the two sides relative to one another parallel to the fracture. The displacement may be a few inches or many miles long.
Feasibility Study	A technical and economic study which demonstrates the technical and economic viability of a mining project to within a range of accuracy of 15% and to an appropriate degree of detail such that a decision for proceeding to the project development stage may be made without substantive revision to either scope or scale.
Feldspar	A group containing two high-temperature series, plagioclase and alkali feldspar; colorless or white and clear to translucent where pure. Constituting 60% of the Earth's crust, feldspar occurs in all rock types and decomposes to form much of the clay in soil, including kaolinite.
Fevralskoye Prospect	An exploration property which is 85% owned by Aurum.
Freibergite	An isometric mineral, $(Ag,Cu,Fe)_{12}(Sb,As)4S_{13}$; tetrahedrite group; forms series with argentotennantite and with tetrahedrite.
Financial Advisors	Joint Global Co-ordinators and Joint Bookrunners and other Managers.
Financial Models	Post-tax pre-finance cashflow models commencing 1 October 2006 and assessed in financial years ending 31 December derived from the underlying LoMp, the associated Technical Economic Parameters and the commodity prices.
Fine grained	<0.8mm.
Fire Assay	The assaying of metallic ores, usually gold and silver, by methods requiring a furnace heat; commonly involves the processes of scorification, cupellation, etc.
Filtration	Removal of suspended and/or colloidal material from a liquid by passing the suspension through a relatively fine porous medium, e.g., a canvas or other fabric diaphragm; the process is activated by

	suction or pressure, and commonly includes filter aids. The products are clear liquid and a filter cake.
Flitch	A vertical increment of a bench which is excavated (post blasting).
Flotation	Processes of concentration in which levitation in water of particles heavier than water was obtained. Thus, if some particles were retained in an oil layer or at the interface between an oil layer and a water layer, the process was spoken of as bulk-oil flotation; if the particles were retained at a free water surface as a layer one particle deep, the process was skin flotation; and if the particles were retained in a foamy layer several inches thick, the process was froth flotation. Froth flotation is the process that has survived the test of time, and the term flotation is now used universally to describe froth flotation.
Flotation Cell	Appliance in which froth flotation of ores is performed. It has provision for receiving conditioned pulp, aerating this pulp and for separate discharge of the resulting mineralised froth and impoverished tailings.
Fly-in-Fly out	Several weeks at a time of working at the deposit and living in the Company's settlements.
Footwall	The part of the country rock that lies below the ore deposit.
Free Dig Material	Ore or waste which may be mechanically excavated without recourse to the use of explosives.
Free Milling	Ores which may be recovered through comminution and gravity separation alone.
Galena	An isometric mineral, 4[PbS]; cubic cleavage; forms cubes and octahedra, also coarse- or fine-grained masses; sp gr, 7.6; occurs with sphalerite in hydrothermal veins, also in sedimentary rocks as replacement deposits; an important source of lead and silver.
Galkinskaya Prospect	Exploration prospect classified as a stand-alone exploration project and wholly owned by Northern Urals Gold.
Garnet	The silicate minerals almandine, andradite, calderite, goldmanite, grossular, hibshite, katoite, kimzeyite, knorringite, majorite, pyrope, schlorlomite, spessartine, and uvarovite.
Geochemical sampling	The search for economic mineral deposits or petroleum by detection of abnormal concentrations of elements or hydrocarbons in surficial materials or organisms, usually accomplished by instrumental, spot-test, or quickie techniques that may be applied in the field.
Geomembrane	Synthetic products used to solve geotechnical problems.
Geophysics	Branch of physics dealing with the Earth, including its atmosphere and hydrosphere. It includes the use of seismic, gravitational, electrical, thermal, radiometric, and magnetic phenomena to elucidate processes of dynamical geology and physical geography, and makes use of geodesy, geology, seismology, meteorology, oceanography, magnetism, and other Earth sciences in collecting and interpreting Earth data. Geophysical methods have been applied successfully to the identification of underground structures in the Earth and to the search for structures of a particular type, as, for example, those associated with oil-bearing sands.
Geotechnical	Investigation of the soil and bedrock on and below a site to determine their engineering properties and how they will interact with, on or in a proposed construction.

Goethite	A common weathering product of iron-bearing minerals; precipitates in bogs and springs; a major constituent of limonite and gossans, and a source of iron and a yellow ochre pigment.
Gold by-product	Unit cash costs determined with gold as the denominator and cash costs reduced by the silver sales revenue.
Gold co-product	Unit cash costs determined with gold equivalent as the denominator.
Grade	The relative quantity or the percentage of ore-mineral or metal content in an orebody.
Grade control	The process of monitoring the estimation of grade in the mining operation by comparison of estimates based on exploration drilling, infill drilling, blast-hole sampling and mining/milling reconciliation exercises.
Grade Control Model	The block model which is derived from interpolation of grades using both exploration drilling and grade control drilling results.
Grade Interpolation	Estimation of a statistical value from its mathematical or graphical position intermediate in a series of determined points.
Granite	Plutonic rock in which quartz constitutes 10% to 50% of the felsic components and in which the alkali feldspar/total feldspar ratio is generally restricted to the range of 65% to 90%.
Granodiorite	A group of coarse-grained plutonic rocks intermediate in composition between quartz diorite and quartz monzonite, containing quartz, plagioclase (oligoclase or andesine), and potassium feldspar, with biotite, hornblende, or, more rarely, pyroxene, as the mafic components.
Gravity Separation	Separation of mineral particles, with the aid of water or air, according to the differences in their specific gravities.
Greenstone	Compact, igneous rocks that have developed enough chlorite in alteration to give them a green cast. They are mostly diabases and diorites.
Haematite	The most widely mined ore of iron; in sedimentary rocks, Precambrian banded iron formations (including their metamorphosed equivalents), oolitic ironstones, contact-metamorphic deposits, commonly by alteration of magnetite; may be of secondary origin, having formed by oxidation and decomposition of iron silicates and carbonates; also occurs as a primary mineral in veins and replacement deposits associated with igneous intrusions.
Hangingwall	The overlying side of an orebody, fault, or mine working, esp. the wall rock above an inclined vein or fault.
Haulage	A drive used for mechanical transport.
Haul Road	A road built to carry heavily loaded trucks at a good speed. The grade is limited on this type of road and usually kept to less than 17% of climb in direction of load movement.
Head Grade	The diluted grade of RoM ore as delivered to the processing facility. Normally this may be back calculated by estimation of the total precious metal accounted for (recovered metal + tailings metal).
Heap Leach	A process used for the recovery of copper, uranium, and precious metals from weathered low-grade ore. The crushed material is laid on a slightly sloping, impervious pad and uniformly leached by the

	percolation of the leach liquor trickling through the beds by gravity to ponds. The metals are recovered by conventional methods from the solution.
Heap Leach Facility	The heap leach metallurgical processing facility at Vorontsovskoye.
Heap Leach Pad	The foundations, generally impermeable, upon which crushed ore and a leaching agent is placed, specifically a Heap Leach Facility.
Host Rock	Body of rock serving as a host for other rocks or for mineral deposits; e.g., a pluton containing xenoliths, or any rock in which ore deposits occur. It is a somewhat more specific term than country rock.
Hurricane Value	A high outlier.
Hydraulic Excavators	An excavator used in open-pit miens powered by hydraulic means.
Hydrocyclone	A classifying (or concentrating) separator into which pulp is fed, so as to take a circular path. Coarser and heavier fractions of solids report at apex of long cone while finer particles overflow from central vortex.
Hydrogeology	The part of hydrology that deals with the distribution and movement of groundwater in the soil and rocks of the Earth's crust.
Hydromica	A general term for brammallite, hydrobiotite, and illite. Widely distributed in argillaceous sediments and derived soils.
Hydrothermal	Of or pertaining to hot water, to the action of hot water, or to the products of this action, such as a mineral deposit precipitated from a hot aqueous solution, with or without demonstrable association with igneous processes.
Hydroxide	The most common name for a polyatomic anion OH– consisting of oxygen and hydrogen.
Ignimbritic	A volcanic pyroclastic rock, often of dacitic or rhyolitic composition.
Ilmenite	A trigonal mineral, $FeTiO_3$; ilmenite group; forms two series with geikielite and with pyrophanite.
Indicated Mineral Resources	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
Industry Guide 7	A Reserve Reporting Guide for Mining Companies as defined by the SEC.
Inferred Mineral Resources	That part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.
Infill Drilling	The process of secondary drilling to aid further definition of an exploration and/or mining target.

Inlier	An area or group of rocks surrounded by rocks of younger age; e.g., an eroded anticlinal crest.
Inter ramp angle	The angle at which the wall of an open pit or cut stands as measured along an imaginary plane extended along the crests of the berms or from the slope crest to its toe between individual ramps.
Intrusion	A mass of igneous rock that, while molten, was forced into or between other rocks.
Iron oxide	A common compound of iron and oxygen.
ISO 14001	Environmental management standards exist to help organisations (a) minimise how their operations (processes, etc.) negatively affect the environment (i.e. cause adverse changes to air, water, or land); (b) comply with applicable laws, regulations, and other environmentally oriented requirements, and (c) continually improve in the above.
Isotope fluorescence analyser	An efficient combined procedure for the extreme trace analysis of precious metals.
Jaw crusher	A crushing machine consisting of a moving jaw, hinged at one end, which swings toward and away from a stationary jaw in a regular oscillatory cycle.
Jumbo	A drill carriage or mobile scaffold on which several drills of drifter type are mounted. It is used in tunnels and large headings.
Jurassic	The second period of the Mesozoic Era (after the Triassic and before the Cretaceous), thought to have covered the span of time between 190Ma and 135Ma; also, the corresponding system of rocks.
JORC Code	The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
Kaolin	Former name for kaolinite. The aluminous minerals of the kaolinite-serpentine group.
Kaolinite	Formed by hydrothermal alteration or weathering of aluminosilicates, esp. feldspars and feldspathoids; formerly called kaolin.
Karst	A topography characterised by caves, sinkholes, disappearing streams, and underground drainage. Karst forms when groundwater dissolves pockets of limestone, dolomite, or gypsum in bedrock.
Karstic	Geological formation which displays karst features.
Katasminskaya Prospect	An exploration prospect classified as part of the regional exploration campaign in Sverdlovsk and wholly owned by Northern Urals Gold.
Khakanjinskoye	Khakanjinskoye Tax Entity incorporating the Mining Assets attributable to Okhotsk.
Khakanjinskoye Mine	The open-pit and proposed underground mining operations at Khakanjinskoye.
Khakanjinskoye Plant	The Khakanjinskoye metallurgical plant.
Khakarinskaya Prospect	An exploration property which is wholly owned by Georazvedka.

Krai	Territories.
Krigging	In the estimation of mineral resources by geostatistical methods, the use of a weighted, moving-average approach both to account for the estimated values of spatially distributed variables, and also to assess the probable error associated with the estimates.
Labour Code	The Labour Code of the Russian Federation.
Leaching	The separation, selective removal, or dissolving-out of soluble constituents from a rock or orebody by the natural action of percolating water.
Lead	A bluish-white metal of bright luster, very soft, highly malleable, ductile, and a poor conductor of electricity; very resistant to corrosion; a cumulative poison. Symbol, Pb. Rarely occurs in native form; chiefly obtained from galena (PbS). Lead is used in storage batteries, cable covering.
Leucogranite	The youngest intrusions related to anatexis of continental crust anywhere in the world. Leucogranites are commonly found in deformed metapelitic/metagraywacke sequences that have been thrusted over basements during crustal thickening associated with continental collisions.
Limestone	Sedimentary rock consisting chiefly (more than 50% by weight or by areal percentages under the microscope) of calcium carbonate, primarily in the form of the mineral calcite, and with or without magnesium carbonate; specif. a carbonate sedimentary rock containing more than 95% calcite and less than 5% dolomite.
Limonite	An oxidation product of iron (rust) or iron-bearing minerals and may be pseudomorphous after them; as a precipitate, both inorganic and biogenic, in bogs, lakes, springs, or marine deposits; and as a variety of stalactitic, reniform, botryoidal, or mammillary deposits.
Liparites	Synonymous with rhyolite.
Listing Rules	UKLA Listing Rules as at 30 June 2005.
Loaded Carbon	Carbon upon which gold has been adsorbed onto as in a Carbon-In-Pulp process.
Load-Haul-Dump trucks	Trackless vehicles used in underground mines to transport ore from the working areas to either trucks or ore-passes.
Lode	A mineral deposit consisting of a zone of veins, veinlets, disseminations, or planar breccias; a mineral deposit in consolidated rock as opposed to a placer deposit.
Long-Hole Drill	Rotary or percussive-type drill used to drill underground blastholes to depths exceeding 3m.
Long-Hole Stoping	Stoping method in which blastholes exceeding 3m in length are used.
Lunnoye	Lunnoye Tax Entity incorporating the Mining Assets attributable to Silver Territories.
Lunnoye Mine	The open-pit and underground mining operations at Lunnoye.
Lunnoye Plant	The Lunnoye metallurgical processing plant.
Magnetite	An igneous rock consisting essentially of magnetite and having an iron content of 65% to 70% or more.

Managers	Deutsche Bank AG, Merrill Lynch International, UBS Limited, and other managers of the offering by the Company.
Manganese Oxide	There are several manganese oxides, the commonest being MnO_2 (pyrolusite). It is used as a colouring oxide (red or purple); mixed with the oxides of cobalt, chromium, and iron, it produces a black.
Marble	A metamorphic rock composed essentially of calcite, dolomite, or a combination of the two, with a fine- to coarse-grained crystalline texture.
Marcasite	White iron pyrites, FeS_2.
Marginal cut-off-grade	A cut off grade which results from consideration of marginal costs: normally the cost of processing and some fraction of the overheads.
Marginal Ore	Ore which has a grade (metal concentration) higher than the marginal cut-off grade.
Measured Mineral Resourced	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.
Merrill Crowe	Removal of gold from pregnant cyanide solution by deoxygenation, followed by precipitation on zinc dust, followed by filtration to recover the resultant auriferous gold slimes.
Mesothermal	Said of a hydrothermal mineral deposit formed at considerable depth and in the temperature range of 200^{o}C to 300^{o}C.
Metallurgical Recovery	The estimate of the percentage of metal recovered in any given metallurgical process.
Metasediments	A metamorphic rock formed from sedimentary rock.
Metasomatism	The process of practically simultaneous capillary solution and deposition by which a new mineral of partly or wholly different chemical composition may grow in the body of an old mineral or mineral aggregate. The presence of interstitial, chemically active pore liquids or gases contained within a rock body or introduced from external sources is essential for the replacement process, that often, though not necessarily, occurs at constant volume with little disturbance of textural or structural features.
Mill	1. A mineral treatment plant in which crushing, wet grinding, and further treatment of ore is conducted. Also, separate components, such as ball mill, hammer mill, and rod mill. 2. A preparation facility within which metal ore is cleaned, concentrated, or otherwise processed before it is shipped to the customer, refiner, smelter, or manufacturer. A mill includes all ancillary operations and structures necessary to clean, concentrate, or otherwise process metal ore, such as ore and gangue storage areas and loading facilities.
Milling	The grinding or crushing of ore. The term may include the operation of removing valueless or harmful constituents.
Mineral Resources	A concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or

	interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.
Mineral Royalty	6.00% of sales revenue for gold and 6.50% of sales revenue for silver.
Mining Assets	The mines, projects, stand-alone exploration projects and the regional exploration campaigns.
Model Validation	A process whereby interpolated grades in a block model are compared with original assay data.
Modifying Factors	The term "Modifying Factors" is defined to include mining, metallurgical, economic, marketing, legal, environmental, social and governmental considerations.
Mountain-side Pits	Open-pits which exploit orebodies which are close to and lying parallel to slopes or mountains.
Normal Fault	A fault in which the hanging wall appears to have moved downward relative to the footwall. The angle of the fault is usually 45^{o} to 90^{o}. There is dip separation, but there may or may not be dip slip.
Nominal	The value of anything expressed in money of the day (versus real value) which removes the effect of inflation.
Oblast	Provinces.
Oblique Slip	In a fault, movement or slip that is intermediate in orientation between the dip slip and the strike slip.
Offer	The offer as defined in the Prospectus.
Off-highway trucks	Truck of such size, weight, or dimensions that it cannot be used on public highways.
Official List	The list representing the largest companies traded in the UK on the London Stock Exchange (LSE), with a typical value of £100m upwards.
OHSAS 18001	An assessment specification for Occupational Health and Safety Management Systems.
Okrugs	Autonomous Districts.
Ongoing Capital	The additional capital expenditure required in order to sustain mining operations which is not directly associated with initial project capital.
Opal	An amorphous or microcrystalline mineral, $SiO_2.nH_2O$, the transparent coloured varieties exhibiting opalescence are valued as gemstones.
Open-pit	A mine working or excavation open to the surface.
Operating Expenditure	Expenditures necessary to support annual production.
Optimisation	An open-pit optimisation technique whereby the contribution of ore and waste is optimally extracted in accordance with pre-defined criteria: economic value; grade and/or qualities; cost of production of saleable products.
Optimised Shell	An undersigned pit shell obtained from the process of open-pit optimisation.
Ordinary Kriging	A regression technique used in geostatistics to approximate or interpolate data.

Ordinary Shares	The ordinary shares to be issued by the Company as part of the Offer.
Ore	The naturally occurring material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives. The term is generally but not always used to refer to metalliferous material, and is often modified by the names of the valuable constituent; e.g., iron ore, ore mineral.
Ore Reserves	The economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.
Ore Reserves EVA	The economic viability assessment of the Ore Reserves as undertaken by SRK which includes the commodity price which: is equivalent to the weighted average LoMp real terms total costs; reflects the current ($2006^{(H1+Q3)}$) cash costs; and is required to return a zero NPV at a real terms discount factor of 10%.
Orogenic Belt	The process by which structures within fold-belt mountainous areas were formed, including thrusting, folding, and faulting in the outer and higher layers, and plastic folding, metamorphism, and plutonism in the inner and deeper layers. Adj: orogenic; orogenetic.
Overall Pit Slope	The slope (angle) at which the wall of an open pit or cut stands as measured along an imaginary plane extended along the crests of the berms or from the slope crest to its toe.
Oxide ore	Ore comprising one of several minerals containing negative oxygen ions bonded to one or more positive metallic ions.
Paved Roads	A road which has been constructed with a durable surface for an area intended to sustain traffic, which can be either vehicular traffic or foot traffic.
Permafrost	A thermal condition where ground material stays at or below 0°C for two or more years.
Pillar	A block of ore entirely surrounded by stoping, left intentionally for purposes of ground control or on account of low value.
Pit Design	A design for an open-pit which comprises all benches, berms, batter angles and haul roads.
Pit optimisation	A process whereby a series of optimised shells for open pits are generated each corresponding to a specific commodity price assumption.
Placer Gold	Gold occurring in more or less coarse grains or flakes and obtainable by washing the sand, gravel, etc., in which it is found. Also called alluvial gold.
Plagioclase Feldspar	Common rock-forming minerals, have characteristic polysynthetic twinning, and commonly display zoning.
Polyethylene Liner	An impermeable membrane normally used for lining a TSF or a Heap Leach Pad.

Porphyritic	Said of the texture of an igneous rock in which larger crystals (phenocrysts) are set in a finer-grained groundmass, which may be crystalline or glassy or both. Also, said of a rock with such texture, or of the mineral forming the phenocrysts.
Potable Water	Water that is safe for human consumption.
Potentially economically mineable	Mineral Resources are quoted at an appropriate in-situ economic cut-off grade which satisfy the requirement of "potentially economically mineable" for open-pit and underground mining separately.
Precipitate	The operation, act, or process of adding a chemical or chemicals to an aqueous solution to react with a dissolved material in the solution and remove the resulting new solid matter by settling.
Pre-feasibility Study	A technical and economic study which demonstrates the technical and economic viability of a mining project to within a range of accuracy of 25% and to an appropriate degree of detail such that a decision for proceeding to the project development stage may be made without substantive revision to either scope or scale.
Primary Ore	Ore in which the sulphide minerals predominate.
Primary Crusher	In comminution of ore, a heavy-duty dry crushing machine capable of accepting run-of-mine coarse ore and reducing it in size to somewhere between 10cm and 15cm. Heavy-duty connotes the ability both to handle large tonnages daily and to withstand very rough treatment.
Production Drill Rig	A drill machine complete with all tools and accessory equipment needed to drill boreholes.
Probable Ore Reserves	The economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but is of sufficient quality to serve as the basis for a decision on the development of the deposit.
Project Capital	The capital expenditure required as the initial development capital and/or for increasing production capacity.
Property Tax	2.2% of the NBV of both buildings and equipment. The amount deemed payable in any given reporting period is the NBV at the start of the reporting period.
Proposed Strategic Alliance	A preliminary agreement to establish a strategic alliance (the "Proposed Strategic Alliance") with AngloGold Ashanti Limited ("AngloGold Ashanti"), a leading international gold producer with operations on four continents.
Prospectus	The prospectus to be published by the Company in connection with the Offer.
Prospectus Directive	The Prospectus Directive as published by the FSA from time to time and governed by the UKLA.
Prospectus Rules	The Prospectus Rules published by the FSA from time to time and governed by the UKLA.

Proustite	A trigonal mineral which occurs in low-temperature or secondary-enrichment veins; a minor source of silver.
Proved Ore Reserves	A "Proved Ore Reserve" is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. A Proved Ore Reserve represents the highest confidence category of reserve estimate. The style of mineralisation or other factors could mean that Proved Ore Reserves are not achievable in some deposits.
Pushbacks	The staged mining increments as open-pits are expanded form the current surface to the ultimate pit design.
Pyrite	An isometric mineral, FeS_2 which occurs in veins, as magmatic segregation, as accessory in igneous rocks, and in metamorphic rocks.
Pyrrhotite	Monoclinic and hexagonal mineral, FeS; in mafic igneous rocks, contact metamorphic deposits, high-temperature veins, and granite pegmatites.
Pulp sample	Mixture of ground ore and water capable of flowing through suitably graded channels as a fluid. Its dilution or consistency is specified either as solid-liquid ratio (by weight) or as a percentage of solids (by weight).
Quartzite	A hard, metamorphic rock which was originally sandstone.
Ramp	Inclines connecting two levels in an open pit.
Rate-of-Rise	The rate at which the height (measured in metres) of a TSF raises per annum.
Real	Removal of the effect of inflation.
Realgar	Arsenic monosulfide, AsS, contains 70.1% elemental arsenic.
Realisation cost	Comprising refining charges and bank commission charges.
Refinery	An electrolytic or chemical facility producing pure metals.
Reftinskaya Prospect	An exploration property which is 85% owned by Aurum.
Regional Exploration Campaigns	Comprising the regional exploration campaigns in Omsukchan, Okhotsk and Sverdlosk.
Reject Sample	Assay samples which are rejected during the sample preparation process.
Residence Time	The period for which milled ore is exposed to cyanide in the leaching process.
Reverse Fault	A fault on which the hanging wall appears to have moved upward relative to the footwall. The dip of the fault is usually greater than 45^o. There is dip separation but there may or may not be dip slip.
Rib Pillar	A pillar whose length is large compared with its width, generally separates stopes on strike.
Rhodochrosite	A trigonal mineral, $MnCO_3$; which occurs in hydrothermal veins, residual manganese deposits, and pegmatites; a minor source of manganese.

Rhodonite	A triclinic mineral, $(Mn,Fe,Mg,Ca)SiO_3$ which occurs in metasomatic manganese ore deposits.
Rhyodacites	The extrusive equivalent of granodiorite.
Rhyolites	A group of extrusive igneous rocks.
Roll crusher	A type of secondary or reduction crusher consisting of a heavy frame on which two rolls are mounted. These are driven so that they rotate toward one another. Rock fed in from above is nipped between the moving rolls, crushed, and discharged at the bottom.
RoM	Run of Mine ore.
Rougher-Scavenger	Rougher—flotation cells in which the bulk of the gangue is removed from the ore. Scavenger—secondary flotation cells for the re-treatment of tailings.
Rudni Prospect	An exploration property which is wholly owned by Imitzoloto.
Rudnichniy Prospect	A wholly owned exploration prospect of Northern Urals Gold.
Rules	The Prospectus Rules, the Prospectus Directive and the CESR Recommendations collectively.
SAG Mill	A mill in which the secondary grinding of ore by tumbling in a revolving cylinder with limited balls or bars taking part in the operation (semi-autogenous grinding).
Sampling	The gathering of specimens of ore or wall rock for appraisal of an orebody. Since the average of many samples may be used, representative sampling is crucial. The term is usually modified to indicate the mode or locality; e.g., hand sampling, mine sampling, and channel sampling.
Sample preparation	The process whereby an analysis sample is obtained from a sample by particle size reduction, mixing and sample dividing in successive stages. A stage of sample preparation refers to the sequence of operation leading up to a sample division.
Sand Flotation	The use of well-graded sand, mixed with water, as the medium for flotation.
Sandstones	A medium-grained clastic sedimentary rock composed of fragments of sand size set in a fine-grained matrix (silt or clay) and more or less firmly united by a cementing material (commonly silica, iron oxide, or calcium carbonate).
Screens	A large sieve for grading or sizing coal, ore, rock, or aggregate. It consists of a suitably mounted surface of woven wire or of punched plate; it may be flat or cylindrical, horizontal or inclined, stationary, shaking, or vibratory, and either wet or dry operation; vibratory screen.
Securities	The GDRs and the Ordinary Shares.
Sedimentary	Formed by the deposition of sediment.
Selective mining units	A volume of ore which is practically deemed to be mineable selectively and is generally related to the size of loading equipment in open-pits and stope dimensions in underground mines.
Semivariogram	A plot of the variance (one-half the mean squared difference) of paired sample measurements as a function of the distance (and optionally of the direction) between samples. Typically, all possible sample pairs are examined, and grouped into classes (lags) of approx. equal distance and direction. Variograms provide a means of quantifying the commonly observed relationship that samples

	close together will tend to have more similar values than samples far apart.
Sericite	A white, fine-grained potassium mica occurring in small scales as an alteration product of various aluminosilicate minerals, having a silky luster, and found in various metamorphic rocks (esp. in schists and phyllites) or in the wall rocks, fault gouge, and vein fillings of many ore deposits. It is commonly muscovite or very close to muscovite in composition, but may also include paragonite and illite.
Shovel	Any bucket-equipped machine used for digging and loading earthy or fragmented rock materials.
Shrinkage Stoping	A vertical, overhand mining method whereby most of the broken ore remains in the stope to form a working floor for the miners. Another reason for leaving the broken ore in the stope is to provide additional wall support until the stope is completed and ready for drawdown. Stopes are mined upward in horizontal slices. Normally, about 35% of the ore derived from the stope cuts (the swell) can be drawn off ("shrunk") as mining progresses.
Silicate	Types of rock that consist predominantly of silicate minerals.
Silicification	The introduction of, or replacement by, silica, generally resulting in the formation of fine-grained quartz, chalcedony, or opal, which may fill pores and replace existing minerals.
Silver by-product	Unit cash costs determined with silver as the denominator and cash costs reduced by the gold sales revenue.
Silver co-product	Unit cash costs determined with silver equivalent as the denominator.
Smelting	A process distinct from roasting, sintering, fire refining, and other pyrometallurgical operations.
Smooth Blasting	A technique used in surface and underground blasting in which a row of closely spaced drill holes are loaded with decoupled charges (charges with a smaller diameter than the drill hole) and fired simultaneously to produce an excavation contour without fracturing or damaging the rock behind or adjacent to the blasted face.
Snowden	Snowden Mining Industry Consultants Pty Limited.
Sphalerite	An isometric mineral, ZnS, with Zn replaced by Fe with minor Mn, As, and Cd; occurs with galena in veins and irregular replacement in limestone; a source of zinc.
Spigotting	The process whereby tailings is discharged into a TSF.
Stand alone development projects	Albazino, APU, Anenskoye, Fevralskoye, Galkinskaya, Khakarinskaya.
Stannite	Tetragonal mineral, Cu_2FeSnS_4; zinc may replace iron; tannite group; metallic; in granular masses in veins associated with cassiterite.
Starter Embankment	The initial embankment generated during the construction of the first life of a TSF.
Steppe	An extensive, treeless grassland area in the semiarid mid-latitudes of southeastern Europe and Asia.

Strike	The course or bearing of the outcrop of an inclined bed, vein, or fault plane on a level surface; the direction of a horizontal line perpendicular to the direction of the dip.
Stripping Ratio	The unit amount of spoil or overburden that must be removed to gain access to a unit amount of ore or mineral material.
Stockpile	An accumulation of ore or mineral built up when demand slackens or when the treatment plant or beneficiation equipment is incomplete or temporarily unequal to handling the mine output; any heap of material formed for loading or other purposes.
Stope	An excavation from which ore has been removed in a series of steps.
Stores	The value of stores at the end of a financial reporting period.
Storm Water	Water that originates during precipitation events. Storm water that does not soak into the ground becomes surface runoff, which either flows into surface waterways or is channelled into storm channels.
Sub-level open stoping	Method of mining best adapted to steeply inclined deposits that have strong ore and strong walls. The ore is usually blocked out by two horizontal drifts separated vertically by 3m to 61m and raises between the two horizontal drifts, the latter separated by comparable distances. Vertical pillars may be left between stopes on the same level, and horizontal ones to support the main haulage. After the main blocks of ore have been completely mined, it is common practice to rob the pillars, and the walls of the stope may collapse after the pillars have been robbed.
Sulphates	Chemical derivatives of sulfuric acid.
Sulphides	A mineral compound characterized by the linkage of sulphur with a metal or semimetal; e.g., galena, PbS, or pyrite, FeS_2.
Sulphide ore	See Primary Ore.
Sulphosalts	A group of minerals that form the bulk of the ore minerals, and generally have metals such as Ag, Zn, Ni, etc. occurring with sulphur.
Sump	An excavation made to collect water, from which it is pumped to a point of discharge.
Supernatant Water	The water which ponds on top of a tailings storage facility.
Syenite	A group of plutonic rocks containing alkali feldspar (usually orthoclase, microcline, or perthite), a small amount of plagioclase (less than in "monzonite"), one or more mafic minerals (esp. hornblende), and quartz, if present, only as an accessory; also, any rock in that group; the intrusive equivalent of "trachyte".
Tailings	Portion of tailings containing some mineral that cannot be economically removed.
Tailings Grade	The concentrate on economic metals reporting to tailings in dry form.
Tailings Storage Facility	An impoundment used to deposit tailings arising as waste from a metallurgical processing facility.
Talovy Prospect	An exploration property which is wholly owned by Imitzoloto.
Tax Entity	The legal entity in which taxation is assessed.
Technical Economic Parameters	Saleable products, operating expenditures and capital expenditures.

Terminal Benefits Liability	Statutory expenditures to be incurred by a business on termination of employment.
Tetrahedrite-tennantite	An isometric mineral which occurs in hydrothermal veins and contact metamorphic deposits; a source of copper and other metals.
Thickener	A vessel or apparatus for reducing the proportion of water in a pulp by means of sedimentation.
Thickener underflow	The pulp which is discharged from a thickener.
Thrust Fault	A fault with a dip of 45 degrees or less over much of its extent, on which the hanging wall appears to have moved upward relative to the footwall.
Titanomagnetite	A titaniferous variety of magnetite with titanium in crystal solution.
Toll treatment	Situation in which the owner of ore or concentrate contracts the refining of the metal to another party for a fee, but the refined metal remains under the original ownership for final sale or disposition.
Total Cash Cost	Cash costs and the incremental components, including royalties, but excluding taxes paid. Consequently in this case Total Cash Costs equal Cash Costs as incurred.
Total Employees Costed	The total number of employees whose operating expenses are included in Cash Costs.
Total Working Cost	Total Cash Cost and the incremental components, including terminal separation liabilities, reclamation and closure costs (the net difference between the total environmental liability and the current trust fund provision) but excluding non-cash items such as depreciation and amortisation.
Trade Balance	The difference between the monetary value of exports and imports in an economy over a certain period of time.
Trenching	In geological exploration, a narrow, shallow ditch cut across a mineral deposit to obtain samples or to observe character.
Truck	Any wheeled vehicle, usually self-propelled, used to transport heavy articles or materials. In mining, usually applied to dump and/or bottom-dump semitrailers used to transport mined waste and ore materials. The number of types of these haulage units varies widely from the small 1.8t standard dump truck to the unit with capacity 181t or greater. For larger stripping operations, where the haulage conditions are not too rugged, a diesel tractor pulling a bottom-dump semi-trailer of capacity 36t to 54t is most common. The newer trucks are equipped with power steering, power brakes, torque converters, and automatic transmissions.
Truck and Shovel	Loading and transportation of mined material in an open-pit.
Tuff	A general term for all consolidated pyroclastic rocks. Not to be confused with tufa. Adj: tuffaceous.
Tundra	A treeless, level or gently undulating plain characteristic of arctic and subarctic regions. It usually has a marshy surface, which supports a growth of mosses, lichens, and numerous low shrubs and is underlain by a dark, mucky soil and permafrost.
Ultimate Pit Shell	The optimised shell: generally corresponding to the commodity price used to define the Ore Reserves: chosen as the basis for generation of the final pit design.

Unpaved Roads	A road without a bound surface layer (such as asphalt concrete or portland cement concrete).
Unpay areas	Distinct areas of an orebody whose grade is less than the marginal cut-off grade.
Valley Type Impoundment	A form of a Tailings Storage Facility which is constructed by formation of an embankment within a valley feature.
Variography	The study of variograms.
VAT Movement	The net movement between input VAT and output VAT in any given reporting period.
Veduga Prospect	An exploration prospect contributed by AngloGold Ashanti to the proposed Strategic Alliance.
Vein	An epigenetic mineral filling of a fault or other fracture in a host rock, in tabular or sheetlike form, often with associated replacement of the host rock; a mineral deposit of this form and origin.
Volcanic rocks	Characteristic of, pertaining to, situated in or upon, formed in, or derived from volcanoes.
Vorontsovskoye	The Vorontsovskoye Tax Entity.
Vorontsovskoye Mine	Vorontsovskoye Tax Entity incorporating the Mining Assets attributable to Northern Urals Gold.
Waste Dump	The area where mine waste or spoil materials are disposed of or piled.
Waste Stripping	The mining in an open-pit of barren or sub-marginal rock or ore which is not of sufficient value to warrant treatment and is therefore removed ahead of the milling processes.
Water Table	The surface that lies between the zone of aeration and the underlying zone of saturation.
Wheel Loader	A mechanical shovel or other machine for loading coal, ore, mineral, or rock, scraper loader; shaker-shovel loader; shovel loader; cutter loader; gathering arm loader.
Wireframe solids	Three dimensional solids representing geological/mineralogical domains.
Working Capital Movement	The amount of day-by-day operating liquidity available to a business.
World Bank	Group of five international organisations responsible for providing finance and advice to countries for the purposes of economic development and poverty.
Yurievskoye Project	A wholly owned asset of Khakanjinskoye.
X-Ray Fluorescence	The phenomenon where a material is exposed to X-rays of high energy, and as the X-ray (or photon) strikes an atom (or a molecule) in the sample, energy is absorbed by the atom.
Zinc	A bluish-white, lustrous metal. Employed to form numerous alloys with other metals including brass, nickel silver, commercial bronze, spring brass, soft solder, and aluminium solder. Used extensively by the automotive, electrical, and hardware industries.
Zinc precipitation	The process whereby gold is cemented by addition of gold dust in the Merrill-Crowe process.

5GR Report	An annual report which contains annual reconciliation between Reserve statements generated in accordance with the Russian Classification System (GKZ).

ABBREVIATIONS

2P	Proved and Probable Ore Reserves.
3R	the sum of Measured, Indicated and Inferred Mineral Resources.
AIME	American Institute of Mining, Metallurgical and Petroleum Engineers.
AIQ	Associate of the Institute of Quarrying.
AngloGold Ashanti	AngloGold Ashanti Limited.
Ag	Silver.
Au	Gold.
Aurum	CJSC Aurum.
BRIC	Brazil, Russia, India and China.
BSc	Bachelor of Science.
CBio	Chartered Biologist.
CEng	Chartered Engineer.
CGE	Chartered Geotechnical Engineer.
CIP	Carbon in Pulp.
CIS	Commonwealth of Independent States.
CIT	Corporate Income Tax.
CJSC	Closed Joint Stock Company.
CP	Competent Person.
CPI	Consumer Price Index.
DCF	Discounted Cashflow.
DEP	Dukat Expansion Project.
DTH	Down the Hole.
Dukat Exploration	Dukat Exploration LLC.
EMS	Environmental Management System.
ESIA	Environmental Social Impact Assessment.
EVA	Economic Viability Assessment.
FDI	Foreign Direct Investment.
FGS	Fellow of the Geological Society.
FIFR	Fatal Injury Frequency Rates.
FIMM	Fellow of the Institute of Mining and Metallurgy.
FoG	Fall of Ground.
FSA	Financial Services Authority.
FSAIMM	Fellow of the South African Institute of Mining and Metallurgy.
Georazvedka	CJSC Georazvedka.
GDP	Gross Domestic Product.

GDR	Global Depository Receipts.
GMT	Greenwich Mean Time.
GNI	Gross National Index.
H1	the first six months of the calendar year.
HDPE	High Density.
HQ	Nominal core diameter of 63.5mm.
ICMM	International Council on Mining and Metals.
ICT	ICT Group.
Imitzoloto	LLC Imitzoloto.
IP	Induced Polarisation.
ISO	International Standards Organisation.
KHK	Khakamjinskoye.
LHD	Load-Haul-Dump.
LLC	Limited Liability Company.
LoMp	Life-of-Mine plan.
LSE	London Stock Exchange plc.
LTIFR	Lost Time Injury Frequency Rate.
MAC	Maximum Acceptable Concentrations.
Magadan Silver	CJSC Magadan Silver
MAuSIMM	Member of the Australian Institute of Mining and Metallurgy.
MCOG	Marginal Cut-off Grade.
MER	Mineral Experts Report.
MICE	Member of the Institue of Civil Engineers.
MICEX	Moscow Interbank Currency Exchange.
MIChem	Member of the Institute of Chemistry.
MIMM	Member of the Institute of Mining and Metallurgy.
Mining Ore Company Dukat	CJSC Mining Ore Company Dukat.
MNR	Ministry of Natural Resources.
MJV	Mongolrostvetment Joint Venture.
MRF	Metallurgical Recovery Factor.
MSc	Masters of Science.
NBV	Net Book Value.
n/d	not determined.
NQ	Nominal core diameter of 47.6mm.
Northern Urals Exploration	LLC Northern Urals Exploration.
Northern Urals Gold	CJSC Northern Urals Gold.
Northern Urals Mining Company	LLC Northern Urals Mining Company.
NPV	Net Present Value.
OCOG	Operating cut-off grade.

OHAS	Occupational Health and Safety.
OHSMS	Occupational Health and Safety Management System.
Okhotsk	OJSC Okhotsk Mining and Geological Company.
OJSC	Open Joint Stock Company.
OJSC Polymetal	Open Joint Stock Company Polymetal Management.
o/p(1)	Mineral Resources which have been modified to produce Ore Reserves.
o/p(2)	Mineral Resources which have not been modified to produce Ore Reserves.
OVOS	Russian Equivalent of an Environmental Impact Statement.
Pan American Silver	Pan American Silver Corporation.
PhD	Doctorate of Philosophy.
PIFA	Portable isotope fluorescence analyses.
Polymetal Engineering	CJSC Polymetal Engineering.
Polymetal Finance	LLC Polymetal Finance.
Polymetal Management	OJSC Polymetal Management.
Polymetal Trade House	LLC Trading House Polymetal.
PPP	Purchase Price Parity.
PrSciNat	Professional Natural Scientist.
Q3	the third quarter of the calendar year.
Resource Albazino	LLC Resource Albazino.
Roche	Roche Mining MT.
RoM	Run-of-Mine.
RoR	Rate-of-Rise.
RTS	Russian Trading System.
Russia	Russian Federation.
RF	The Russian Federation.
SAG	Semi-Autogenous Grinding.
SEC	United States Securities and Exchange Commission.
SEE	State Environmental Expertise.
Silver Territories	CJSC Silver Territory.
SME	Small and medium sized enterprises.
SMU	Selective Mining Unit.
SNIPs	Sanitary Normative Principles.
s/p	stockpile.
s/p(1)	Mineral Resources which have been modified to produce Ore Reserves.
s/p(2)	Mineral Resources which have not been modified to produce Ore Reserves.
SR	Severity Rate.
SRK	SRK Consulting (UK) Limited.

SRK Group	SRK Global Limited.
TBL	Terminal Benefits Liability.
TEC	Total Employees Costed.
Tekhnometall	LLC Tekhnometall.
TEP	Technical-Economic Parameters.
Total M+I	Total Measured and Indicated.
TSF	Tailings Storage Facility.
u/g	Underground.
u/g(1)	Mineral Resources which have been modified to produce Ore Reserves.
u/g(2)	Mineral Resources which have not been modified to produce Ore Reserves.
UKLA	United Kingdom Listing Authority.
US	The United States of America.
USSR	Union of Soviet Socialist Republics.
VLP	Vertical Longitudinal Projection.
WTO	World Trade Organisation.
XRF	X-Ray Fluroesence.
Yenisey	CJSC Yenisey Mining and Geological Company.
YTD	Year to date.
YVK	Yurievskoye.

UNITS

g/t Ag, or Ag g/t	grams of silver per metric tonne.
g/t Au, or Au g/t	grams of gold per metric tonne.
g/t Au Eq/TEC/month	grams of equivalent gold per TEC per month.
kg	a kilogramme.
km	kilometre, a thousand metres.
km^2	a square kilometre.
koz	a thousand troy ounces.
koz Ag	a thousand troy ounces of silver.
koz Au	a thousand troy ounces of gold.
koz Au Eq	a thousand troy ounces of equivalent gold.
kt	a thousand metric tonnes.
ktpa	a thousand metric tonnes per annum.
ktpm	a thousand metric tonnes per month.
m	a metre.
m^3/hr	a cubic metre per hour.
mm	a millimetre.
mmhrs	a million man hours.

Moz	a million troy ounces.
mpa	a metre per annum.
Mt	a million metric tonnes.
RUB	a Russian Federation Rouble.
t/TEC/month	a metric tonne per TEC per month.
(t_{waste}:t_{ore})	stripping ratio, tonne of waste per tonne of ore.
US$:RUB	the exchange rate between United States Dollars and Russian Roubles.
US$bn	a billion United States Dollars.
US$/capita	United States dollars per capita.
US$m	a million United States Dollars.
US$/oz	United States dollars per troy ounce.
US$/oz Ag Eq	United States dollars per troy ounce of equivalent silver.
US$/oz Au Eq	United States dollars per troy ounce of equivalent gold.
US$/t	a United States dollar per tonne.
%	a percent.
% Ag	percentage of silver recovered.
% Au	percentage of gold recovered.
^{o}	a degree.
^{o}C	a degree Celsius.
‘	a minute.
μm	a micrometre.

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